

TRANSCRIPT OF RECORD

Supreme Court of the United States

OCTOBER TERM, 1962

No. 23

**PAN AMERICAN WORLD AIRWAYS, INC.,
APPELLANT,**

vs.

UNITED STATES.

No. 47

UNITED STATES, APPELLANT,

vs.

PAN AMERICAN WORLD AIRWAYS, INC., ET AL.

**APPEALS FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK**

NO. 23 FILED JULY 25, 1961

NO. 47 FILED DECEMBER 1, 1961

JURISDICTION POSTPONED JANUARY 15, 1962

SUPREME COURT OF THE UNITED STATES

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PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 331

Order No. E-9481

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

Adopted by the Civil Aeronautics Board
at its office in Washington, D. C.,
on the 10th day of August, 1955.

Docket No. 4882 *et al.*

In the matter of the
REOPENED NEW YORK-BALBOA
THROUGH SERVICE PROCEEDING

ORDER APPROVING INTERCHANGE
AGREEMENT

On August 4, 1955, there was filed with the Board a joint application by National Airlines, Pan American-Grace Airways, and Pan American World Airways for approval of (a) an agreement for the provision of through-plane service between New York and Miami on National's route No. 31, Miami and Balboa on Pan American's Latin American route, and Balboa and points on Panagra's route, and (b) an amendment dated July 30, 1955, to the Through Flight Agreement between Pan American and Panagra. The carriers request approval of the agreements under section 412 of the Act and, if required, under section 408, except that, if the latter is required, it is requested that the Board exempt the parties from the hearing requirements of section 408 in order to permit the agreement to become effective immediately.

There was also filed with the Board on August 4, 1955, a superseding amendment to an earlier filed agreement be-

tween National and Pan American.¹ The amended agreement would provide for through service between New York and Miami on National's route No. 31, and Miami and Balboa on Pan American's route. The agreement also indicates that one or more intermediate points may be served, and that other routes of Pan American beyond Miami may also be added by mutual consent. The parties seek immediate approval of this agreement without formal hearings thereon.

[fol. 3272] Insofar as the proposed three way interchange between National, Panagra and Pan American is concerned, we find that the service which it would establish is responsive to our decision in the *Reopened New York-Balboa Through Service Proceeding*, Orders Nos. E-9109, and E-9110, dated November 23, 1954, in which we invited the carriers concerned to submit a voluntary proposal for a three way interchange between South America and New York, and made the entering into such an agreement a condition precedent to approval of the Pan American-Panagra Through Flight Agreement.

We have reviewed the agreement and find that it does not contain any provision which is contrary to the public interest or violates the Civil Aeronautics Act.³ Therefore,

¹ The original agreement was filed on June 30, 1955. On July 5, 1955, Eastern Air Lines filed a letter with the Board stating its objection to approval of such agreement without further hearing thereon. On July 18, 1955, National filed a request for an exemption from the hearing requirements of section 408 to permit immediate consideration and approval of the agreement. On July 28, 1955, Eastern filed an answer opposing National's exemption request.

² We also there indicated the other conditions which we would impose upon approval of the Through Flight Agreement. See pages 36-37 of the mimeographed opinion.

³ However, it is to be noted that for various reasons the financial terms are of greater significance, insofar as the public interest is concerned, than in the usual interchange agreement. These reasons include the fact (a) that the agreement involves a self-sufficient carrier, National, and two other carriers whose costs are substantially higher than National's and whose operations still require subsidy assistance, and (b) that, at least initially, only

approval of the agreement, subject to the usual terms and conditions placed upon interchange service, would not be adverse to the public interest or in violation of the Act and should be approved under Section 412.

Although a hearing may be technically required for this type of situation on the ground that the agreement is subject to Section 408, it is our judgment that the circumstances of this case call for an exemption therefrom pursuant to our powers under section 416. It is clear that no useful purpose can be served by a hearing on the agreement. The principal matters which would be in issue under section 408 have already been tried in the *New York-Balboa Case, supra*, upon which the Board and the parties have already spent several years. Therefore, a hearing would be of little, if any substantial benefit, would impose an undue burden on the parties, and would unduly delay a service found to be in the public interest.

[fol. 3273] We have also considered the provisions of the Through Flight Agreement, as amended by Supplement Numbers 8 through 16, and Number 18, which we have numbered Amendments A9 through A18, and find that it does not contain any provision which is contrary to the public interest or violates the Civil Aeronautics Act. Therefore, approval of the Through Flight Agreement, subject to the usual terms and conditions imposed upon interchange service, as well as the conditions described in Order No. E-9109 dated November 23, 1954, pp. 36-37, would not be

Panagra's equipment will be used in the interchange service. Accordingly, we expect the parties to review from time to time the effect of these terms on their financial position and to take appropriate steps, as provided under the agreement, to revise such financial terms, if they appear to impose unfairly upon any of the parties. It should also be made clear that the Board in approving the interchange agreement, is not in any manner making a determination for rate making purposes of the reasonableness of any of the costs or charges claimed by any carrier under the terms of the agreement.

* E.G., Order No. E-8759, dated Nov. 10, 1954, Order No. E-5387, dated May 1, 1951.

The carriers have not filed with the Board any Supplement No. 17.

adverse to the public interest or in violation of the Act, and should be approved under section 412.6.

We turn now to the National Pan American agreement. The applicants point out that in the opinion in the *New York-Balboa Proceeding, supra*, we indicated that "we would look with favor upon proposals submitted by National and Pan American" designed to meet the demonstrated need for through plane service between the north-eastern United States and "those points sought to be served in the Caribbean area" * * * by the 'Nassau', 'North Coast' and other interchanges included in the Eastern-Pan American agreement." The applicants argue that, although technically the *Balboa Case* did not include any issue with respect to a National-Pan American interchange, there was evidence and argument in the proceeding directed to that possibility, and that the record contains ample data upon which the Board could make the necessary findings for approval of the agreement without further hearing. Eastern, on the other hand, strongly opposes approval of the agreement without further hearing. Not only does the carrier rely on the fact that there has been no hearing on issues relating to a National-Pan American interchange service, but it is also pointed out that the applicants have made no specific proposals with respect to the service which would be provided, and thus are, in effect, asking for a blank check.

We have considered the matters set forth on behalf of the applicants, as well as other matters, and have concluded that it would not be in the public interest to approve [fol. 3274] the National-Pan American agreement.

* In reaching our decision, we have given due consideration to the request of the Airline Pilots Association that we take no action herein which would adversely affect the Association's efforts to resolve satisfactorily certain employee problems which have been a source of friction under the Through Flight Agreement. We have not been specifically advised of the means proposed by the Association to resolve these difficulties, or what action on our part is, or is not necessary with respect to the Association's plans. Nor do we see where the action which we are here taking, which is consistent with that which we have followed in other cases, without objection by the Association, would prejudice the effort of the Association to solve the problems involved.

without affording an opportunity for further hearings thereon.

On the basis of the foregoing, we find that:

1. The National-Pan American-Panagra interchange agreement, and the Pan American-Panagra Through Flight Agreement, as amended by Amendments Nos. A9 through A18, are not adverse to, and are consistent with the public interest, subject to the conditions hereinafter proposed, and are not in violation of the Civil Aeronautics Act.

2. Enforcement of section 408 of the Act with respect to the National-Pan American-Panagra agreement would be an undue burden on such carriers by reason of unusual circumstances affecting the operations of these carriers and is not in the public interest.

3. The National-Pan American interchange agreement should not be approved without further hearing thereon.

IT IS ORDERED THAT:

1. The record in Docket No. 4882, et al., be and it is hereby reopened, to the extent necessary to receive the National-Pan American-Panagra agreement dated August 4, 1955, and supplement No. 18 to the Through Flight Agreement, dated August 4, 1955.

2. The agreement between National, Pan American, and Panagra dated August 4, 1955, for through service between New York and Miami on National's route No. 31, Miami and Balboa on Pan American's route, and Balboa and points in South America on Panagra's route be, and it hereby is approved subject to the conditions set forth in paragraphs 5 through 15 below.

3. The Through Flight Agreement between Panagra and Pan American, as amended by Amendment Nos. A9 through A18, be and it hereby is approved subject to the conditions set forth in paragraphs 4 through 15 below.

4. Approval of the Through Flight Agreement shall be for a period terminating December 31, 1960; *Provided*, That if the anti-trust proceeding which is currently pending against Pan American, Panagra and W. R. Grace & Co.,

is finally concluded prior to 1960, such approval shall terminate 90 days after the effective date of a final order (other than an order of dismissal) disposing of the anti-trust litigation, and *Provided further*, That upon the effective date of such final order (other than an order of dismissal) the proceedings in Docket No. 4882 et al., shall thereupon be reopened without further order for the purpose of determining whether approval of the Through Flight Agreement should be extended, modified or terminated.

5. The initial interchange schedules and all subsequent changes therein shall be filed fifteen days in advance of the [fol. 3275] proposed effective dates thereof, and operations shall not be permitted thereunder until after they have been approved by the Board, such approval to be granted with or without hearing, as the Board may determine; *Provided*, That the approval of the Board under this provision shall not be required for revisions which merely change the time of service to a point or points in schedules previously approved by the Board.

6. Fifteen days prior to the date of commencement of operations, the parties shall file with the Board a complete supplementary contract covering any matters left to subsequent agreement under the interchange agreement, including a specific provision with respect to the division of revenues from the interchange service.

7. The parties to the agreement shall comply with the requirements of section 6 of the Railway Labor Act and existing collective bargaining agreements to resolve any conflict arising out of operation of the agreements.

8. The carriers shall comply with the requirements for air carrier equipment interchange contained in section 40.365 of the Civil Air Regulations or any amendment thereto.

9. No operations under the agreements shall be discontinued without prior application to the Board and decision thereon, with or without hearing at the Board's discretion.

10. The approval of the agreements granted herein shall terminate if at any time the Board finds that the continued

operation of the parties under said agreements or under any of their provisions would be adverse to the public interest, or in violation of the Civil Aeronautics Act of 1938, as amended, or of any rule, regulation, or order of the Board, now or hereafter in effect.

11. No through-plane operations other than those approved by the Board shall be conducted under the agreements, and for this purpose a flight with the same plane between any two points shall be deemed to be a through-plane operation between any two points, unless there is a layover at any intermediate point between said two points, such layover to be one and one-half hours after scheduled arrival time or one hour after such actual arrival time, whichever is later.

12. The approval granted herein shall not be deemed a determination for rate-making purposes of the reasonableness of any of the costs or charges claimed by any carrier under the terms of the interchange agreements.

13. All agreements modifying or supplementing the basic interchange agreement herein shall be filed for Board approval at least twenty days prior to the proposed effective date of such modifying or supplementing agreements.

[fol. 3276] 14. The Board retains jurisdiction of this proceeding for the purpose of imposing from time to time such further terms and conditions as it may find to be just and reasonable and for the further purpose of requiring the submission of such special reports on the financial and operating aspects of the operations as the Board may from time to time order.

15. The parties to the agreement shall render adequate through service to each city to which service is rendered pursuant thereto.

16. National, Pan American and Panagra be, and they hereby are exempted from the requirements of section 408 of the Civil Aeronautics Act insofar as such section may be applicable to the agreements approved herein.

17. The National-Pan American application for approval of an agreement for interchange service filed June 30, 1955, as amended by the agreement dated August 4, 1955, be and it hereby is denied insofar as it requests approval of such agreement without further hearing thereon.

By the Civil Aeronautics Board:

/s/ M. C. MULLIGAN

M. C. Mulligan
Secretary

(SEAL)

[fol. 3277]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 332

Order No. 7-9562

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

Adopted by the Civil Aeronautics Board
at its office in Washington, D. C.
on the 12th day of September, 1955.

Agreement CAB No. 9205-A1

In the matter of a supplemental agreement filed pursuant to section 412(a) of the Civil Aeronautics Act of 1938, as amended, between

NATIONAL AIRLINES, INC.
PAN AMERICAN WORLD AIRWAYS, INC.

and

PAN AMERICAN-GRACE AIRWAYS, INC.

relating to interchange service between New York, New York and Balboa, Canal Zone and points in South America via intermediate points.

ORDER

On August 10, 1955 by Order No. E-9481, the Board approved an interchange agreement between National Airlines, Inc., Pan American World Airways, Inc. and Pan American-Grace Airways, Inc. (Panagra) providing for through one-plane service between New York, New York and Balboa, Canal Zone and points in South America on the routes of Panagra, which agreement was responsive to the Board's decision of November 23, 1954 (Orders Nos. E-9109 and E-9110) in the *Reopened New York-Balboa Through Service Proceeding*, Docket No. 4882, *et al.* As a condition to approval, the Board directed the parties to file, fifteen days prior to commencement of service, a supplementary contract covering any matters left to subsequent agreement, including a specific provision covering the division of revenues from the interchange service.

The parties having complied with the Board's order and the Board finding that the supplemental agreement of August 22, 1955 between the parties is not adverse to the public interest nor in violation of the Civil Aeronautics Act:

IT IS ORDERED THAT the supplemental agreement of August 22, 1955 between the parties be and it hereby is approved, subject to the terms and conditions of the Board's order of August 10, 1955, Order No. E-9481.

By the Civil Aeronautics Board:

/s/ M. C. MULLIGAN

M. C. Mulligan
Secretary

(SEAL)

[fol. 3278]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 333

Order No. E-9654

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

Adopted by the Civil Aeronautics Board
at its office in Washington, D. C.
on the 13th day of October, 1955

Agreement CAB No. 9363, *et al.*

In the matter of agreements filed pursuant to section 412(a) of the
Civil Aeronautics Act involving

UNITED AIR LINES, INC.

and

COLONIAL AIRLINES, INC.

VARIOUS OTHER AIR CARRIERS AND OTHER CARRIERS
relating to intercompany arrangements.

ORDER APPROVING AGREEMENTS

There having been filed with the Board pursuant to section 412(a) of the Civil Aeronautics Act and Part 261 of the Board's Economic Regulations certain agreements between various carriers as indicated below:

<i>CAB No.</i>	<i>Parties</i>	<i>Subject</i>
9363	United Air Lines, Inc. Colonial Airlines, Inc.	Lease of hangar space, Washington National Airport
9364	United Air Lines, Inc. Real-Aerovias Brasil	Employee vacation fare discounts
9107-A1	Northeast Airlines, Inc. British Overseas Airways Corp.	Employee vacation fare discounts

<i>CAB No.</i>	<i>Parties</i>	<i>Subject</i>
9365	United Air Lines, Inc. The New York, Chicago and St. Louis Railroad Company	Exchange orders
9366	Transocean Air Lines United States Overseas Airlines	Maintenance service, Seattle, Washington
9367	Delta Air Lines, Inc. Eastern Air Lines, Inc.	Radio site, St. Louis, Missouri
9368	Capital Airlines, Inc. Mohawk Airlines, Inc.	Public address system, Chemung County Air- port, Horseheads, New York
[fol. 3279] 9369	Northwest Airlines, Inc., Anchorage Porter Service Co. Alaska Airlines, Inc. Cordova Airlines, Inc. Northern Consolidated Airlines, Inc. Pacific Northern Airlines, Inc.	Porter service, Anchorage, Alaska
5431 A4	United Air Lines, Inc. Braniff Airways, Inc.	Airport services, Lincoln, Nebraska
9370	Northwest Airlines, Inc. Iberia Air Lines of Spain	"In bond" transfers at New York
9371	Riddle Airlines, Inc. Aerovias Panama, S. A.	Interline cargo traffic
9372	New York Airways, Inc. Aerovias Panama, S. A.	Interline passenger and cargo traffic
9373	The Flying Tiger Line, Inc. Wedemann & Godknecht, Inc.	Sales agency, New York, New York
9374	Delta Air Lines, Inc. Midway Airlines, Inc.	Interline traffic
9375	The Flying Tiger Line, Inc. Qantas Empire Airways Ltd.	Interline traffic

<i>CAB No.</i>	<i>Parties</i>	<i>Subject</i>
9376	The Flying Tiger Line Inc. Aerovias Panama, S. A.	Interline traffic
9377	United Air Lines, Inc. Seaboard & Western Airlines, Inc.	Interline traffic
9378	Aerovias Sud Americana, Inc. Airwork Limited, Inc.	Interline traffic
9379	Air Cargo, Inc. Ray D. Jackson, d/b/a A and A Delivery Service Central Airlines, Inc.	Pickup and delivery, Duncan, Oklahoma
727-A19	Pan American World Airways, Inc. Pan American-Grace Airways, Inc.	Through flight agree- ment
[fol. 3280] 6638-A6	Continental Air Lines, Inc. United Air Lines, Inc.	Equipment interchange
7541-A26	Members of the Air Traffic Conference of America	Military representa- tion resolution

The Board, upon consideration of said agreements and not finding them to be adverse to the public interest or in violation of the Civil Aeronautics Act,

IT IS ORDERED THAT:

The agreements listed above be and they hereby are approved.

By the Civil Aeronautics Board:

① /s/ M. C. MULLIGAN

M. C. Mulligan
Secretary

(SEAL)

[fol. 3281]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 334

Order No. E-10669

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C. —

Adopted by the Civil Aeronautics Board
at its office in Washington, D. C.
on the 15th day of October, 1956.

Agreement CAB No. 10329, *et al.*

In the matter of agreements filed pursuant to section 412(a) of the
Civil Aeronautics Act involving

ALLEGHENY AIRLINES, INC.

and

BRANIFF AIRWAYS, INC.

VARIOUS OTHER AIR CARRIERS AND OTHER CARRIERS

relating to intercarrier arrangements

ORDER APPROVING AGREEMENTS

There having been filed with the Board pursuant to section 412(a) of the Civil Aeronautics Act and Part 261 of the Board's Economic Regulations certain agreements between various carriers as indicated below:

<i>CAB No.</i>	<i>Parties</i>	<i>Subject</i>
10329	Allegheny Airlines, Inc. Braniff Airways, Inc.	Sublease of space to Braniff, Washington, D. C.
	Air Cargo, Inc., various air carriers, and the following:	
2738-A3	Marvin Bros. Express Co.	Pickup and delivery; Bridgeport, Conn.
10303-A1	Moore's Moving & Storage Com- pany	San Antonio, Tex.

CAB No.	Parties	Subject
3455-A5	Larson Transfer Company	Minneapolis, area
1583-A4	Sterling Cartage Company	Minneapolis, area
10207-A1	W. H. Zuehl, d/b/a Bill's Air Freight	Santa Ana, Calif.
7768-A9	Atlantic Air Freight, Inc.	Westchester County, N. Y.
6728-A5	Wells Fargo Armored Service Corporation	New York, N. Y.
8835-A5	Commodity Haulage Corp.	New York, N. Y.
10330	Bernard P. Harrington and Rich Bowman, d/b/a City Taxi Company	Butte, Mont.
10331	Harry J. Scari, d/b/a Scari's Delivery Service	Wilmington, Del.
10332	Airlines Limousine Service, Inc.	Endicott/Johnson City/ Binghamton
[fol. 3282]	Pan American World Airways, Inc. and the following:	Interline cargo and passenger traffic:
2684-A1	West Coast Airlines, Inc.	
7303-A1	Mackey Airlines, Inc.	
3569-A1	Malayan Airways, Ltd.	
5615-A1	Jugoslovenski Aerotransport	
4657-A1	Hong Kong Airways, Ltd.	
4161-A1	Gulf and South American Steamship Co., Inc.	Interline passenger traffic: (air and sea)
6453-A1	Holland-Afrika Lijn	
8444-A1	Nippon Yusen Kaisha	
9637-A3	Royal Inter-ocean Lines	
8579-A1	Indian Airlines Corporation	Interline traffic
9791-A1	"Italia" Societa per Azioni de Navigazione (Italian Line)	Interline passenger traffic
6334-A1	Anchor Line	Interline passenger traffic
10333	Turk Hava Yollari Anonim Ortakligi	Interline traffic
8972-A1	Transocean Air Lines Deutsche Lufthansa	Assignment of flight navigators

<i>CAB No.</i>	<i>Parties</i>	<i>Subject</i>
10314	United Air Lines, Inc. Braniff Airways, Inc.	Employee reduced fare
7824-A5	United Air Lines, Inc. Japan Air Lines Co., Ltd.	Ground services, Honolulu and San Francisco
9846	American Shippers, Inc. Air Frange	IATA sales agency, New York
9852	American Shippers, Inc. El Al Israel Airlines, Ltd.	IATA sales agency, New York
9853	American Shippers, Inc. Japan Air Lines Co., Ltd.	IATA sales agency, New York and Chicago
9856	American Shippers, Inc. Linee Aeree Italiane S.p.A.	IATA sales agency, New York, Chicago and Los Angeles
9862	American Shippers, Inc. Swiss Air Lines	IATA sales agency, Chicago
9205-A2	Pan America-Grace Airways, Inc. Pan American World Airways, Inc. National Airlines, Inc.	Equipment Interchange
7882-A2	Pan American World Airways, Inc. KLM Royal Dutch Airlines	Ground facilities and services, Okinawa
7548-A17 A18	Members of the Air Traffic Conference of America	Standard Interline Reservations Procedures
[fol. 3283]		
10321	Riddle Airlines, Inc. Michigan Air Freight Service, Inc.	Drayage services, Detroit, Mich.

The Board, upon consideration of said agreements, not finding them to be adverse to the public interest or in violation of the Civil Aeronautics Act;

IT IS ORDERED THAT: The agreements listed above be and they hereby are approved.

By the Civil Aeronautics Board:

/s/ M. C. MULLIGAN
M. C. Mulligan
Secretary

(SEAL)

[fol. 3284]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 335

Order No. E-11789

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

Adopted by the Civil Aeronautics Board
at its office in Washington, D. C.
on the 13th day of September, 1957
Agreement CAB No. 1980-A6, *et al.*

In the matter of agreements filed pursuant to section 412(a) of the
Civil Aeronautics Act involving

PAN AMERICAN WORLD AIRWAYS, INC.
and

BRANIFF AIRWAYS, INC.

VARIOUS OTHER AIR CARRIERS AND OTHER CARRIERS
relating to intercarrier arrangements

ORDER APPROVING AGREEMENTS

There having been filed with the Board pursuant to section 412(a) of the Civil Aeronautics Act and Part 261 of the Board's Economic Regulations certain agreements between various carriers as indicated below:

CAB No.	Parties	Subject
1980-A6	Pan American World Airways, Inc. Braniff Airways, Inc.	Ground services and facilities, San Blas, Panama
11154	Riddle Airlines, Inc. Lineas Aereas de Nicaragua, S. A. (LANICA)	Interline cargo traffic
11155	Air Cargo, Inc., various air carriers, and the following: Charles Feltenberger, d. b. a Charlie's Taxi Service	Pickup and delivery: Reading, Pa., area
8789-A4 10573-A1 A2	Skyline Motors Rileys Air Cargo	Pittsburgh, Pa. Pittsburgh, Pa. area
11156	The Flying Tiger Line Inc. Andrew Obes' & Son	Sales agency Metropolitan New York area
[fol. 3285] 11157	The Flying Tiger Line Inc. Hopla Trucking Co.	Sales agency, Eastern Central New Jersey
11158	American Airlines, Inc. United States Lines	Transportation of aliens through the United States without U. S. Visas
11159	Northwest Airlines, Inc. Transportes Aereos Nacionales, S. A.	Interline passenger, baggage and cargo traffic
11160	Delta Air Lines, Inc. Pan American World Airways, Inc.	Ground services, Baton Rouge, La.
11161	Bonanza Air Lines, Inc. Airwork Limited	IATA multilateral traffic, baggage and cargo handling
11162	Bonanza Air Lines, Inc. Civil Air Transport	IATA multilateral inter- line traffic.

CAB No.	Parties	Subject
11298	Lake Central Airlines, Inc. Eagle Airways of Britain	IATA interline baggage
11299	Air Cargo, Inc., various air carriers and Albert M. Clark, d/b a Airport Transportation Co.	Pickup and delivery, Danville, Va.
11300	Seaboard & Western Airlines, Inc. Ozark Air Lines, Inc.	Interline cargo traffic
11301	Riddle Airlines, Inc. Central Moving & Storage Inc.	Household effects sales agency, sales agency, Orlando, Fla.
11302	Allegheny Airlines, Inc. Northeast Airlines, Inc.	Ticketing services, Bellevue-Stratford Hotel Philadelphia, Pa.
11303	Pan American World Airways, Inc. East-West Airlines	IATA interline traffic
10609-A1 [fol. 3286]	United Air Lines, Inc. El Al Israel Airlines, Ltd.	Employees vacation reduced fares
5207-A2	United Air Lines, Inc. The Library Plaza Corporation Continental Air Lines, Inc. American Airlines, Inc. Braniff Airways, Inc. Capital Airlines, Inc. Delta Air Lines, Inc. Eastern Air Lines, Inc. Northwest Airlines, Inc. Trans World Airlines, Inc.	Lease of office space for a joint ticket office, Evanston, Ill.
11304	United Air Lines, Inc. Denver and Rio Grande Railroad.	Acceptance of Bur- rough's Ticketeers Tick- ets, Denver—Salt Lake City

<i>CAB No.</i>	<i>Parties</i>	<i>Subject</i>
2780-A14	United Air Lines, Inc. Northwest Airlines, Inc.	Ground services and facilities, Honolulu, T. H.
8901-A1	Piedmont Aviation, Inc. Sabena (Belgian Airlines)	Employees reduced fare interlining agreement
9827	United Air Lines, Inc.	Joint use of Air Cargo
9827-A1	American Airlines, Inc. Braniff Airways, Inc. Capital Airlines, Inc. Delta Air Lines, Inc. Trans World Airlines, Inc.	Building, O'Hara Field, Chicago, Illinois
5388-A28	Continental Air Lines, Inc.	Equipment Interchange
-A29	American Airlines, Inc.	
-A30		
5101-A23	National Airlines, Inc.	Equipment Interchange
-A24	Delta Air Lines, Inc. American Airlines, Inc.	
6639-A4	Braniff Airways, Inc. United Air Lines, Inc.	Equipment Interchange

The Board, upon consideration of said agreements, not finding them to be adverse to the public interest or in violation of the Civil Aeronautics Act:

IT IS ORDERED THAT The agreements listed above be and they hereby are approved.

By the Civil Aeronautics Board:

/s/ M. C. MULLIGAN

M. C. Mulligan
Secretary

(SEAL)

[fol. 3287]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 335A

Oct. 1, 1928.

CONFIDENTIAL

TO

William F. Cogswell, W. R. Grace & Co.

PRELIMINARY ESTIMATE

of

Proposed Airline Services,

Between

Cristobal, P.C.Z., and Valparaiso, Chile

Exhibit I — Estimated Capital Investment.

Exhibit II — Est. Annual Operating Costs.

Exhibit III — Est. Annual Revenue.

West Coast Division

of

Pan American Airways, Inc.,

System.

[fol. 3288]

Southbound Schedule.

Reversed for Northbound Services.

1st Section

<i>Cristobal</i>	<i>Mileage</i>	<i>Flying Time</i>	<i>Stopover</i>	<i>Elapsed Time</i>
Jurado	210	2:06	0:30	2:36
Buenaventura	215	2:09	0:15	2:24
Tumaco	190	1:54	0:15	2:09
Bahia de Caraquez	200	2:00	0:15	2:15
Guayaquil	115	1:09	Overnight	1:09
1st Day	930	9:18	1:15	10:33

*2nd Section**Quayaquil*

Talara	180	1:48	0:30	2:18
Trujillo	290	2:54	0:15	3:09
Lima	315	3:09	Overnight	3:09
2nd Day	785	7:51	0:45	8:36

*3rd Section**Lima*

Ica	170	1:42	0:15	1:57
Mollendo	320	3:12	0:15	3:27
Arica	200	2:00	0:30	2:30
Iquique	120	1:12	Overnight	1:12
3rd Day	810	1:12	1:00	9:06

*4th Section**Iquique*

Antofagasta	230	2:18	0:15	2:33
Caldares	235	2:21	0:15	2:36
La Serena	190	1:54	0:15	2:09
Valparaiso	220	2:12	—	2:12
4th Day	875	8:45	0:45	9:30

RECAPITULATION

1st Section

	<i>Mileage</i>	<i>Flying Time</i>	<i>Stopover</i>	<i>Elapsed Time</i>
1st Day	930	9:18	1:15	10:33

2nd Section

2nd Day	785	7:51	0:45	8:36
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3rd Section

3rd Day	810	8:06	1:00	9:06
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4th Section

4th Day	875	8:45	0:45	9:30
	3400	34:00	3:45	37:45

3374

[fol. 3289]

Notes:

1. Service three times weekly each way.

2. *Service Mileage*

(a) Airway distance plus 10% for detours,
ferrying and test flights, taxiing and
engine tests (one way) 3,740

(b) Per year (3 round trips per week) 4,166,880

3. *Flying Hours*

(a) Service cruising speed—100 ground M.P.H.

(b) Total flying time per year 11,668

4. *Flight Equipment*

(a) Twin motored Amphibian Planes between
Cristobal and Talara.

(b) Tri-motored land planes between Talara and
Valparaiso

[fol. 3290]

EXHIBIT I

ESTIMATED CAPITAL INVESTMENT

*Flight Equipment**Airplanes*

7 Fokker F-10 Planes at	\$57,500.	\$402,500.
3 Sikorsky Amphibians at	48,500.	145,500.
10 Wasp Engines (Shielded) at	6,700.	67,000.

Miscellaneous Equipment

Additional navigation instruments, aircrafts, life preservers, landing flares and Very pistols at per ship.	1200.	12,000.
		<hr/> \$627,000.

Airports

Class A. Airports at Divisional Headquarters

Structures

4 ship hangar	35,000.
Pass. Station (Incl. Furn. & Fix.)	25,000.
Maintenance Shop (Incl. Eqpt.)	35,000.
Water, Telephone & Electric	4,750.

Field Equipment

Chevrolet Truck	1,100.
Ford Tractor	750.
Tail Dollies (2)	300.
Fire Exting. (2)	25.
Field Tools (2 sets)	960.
Hand Starters (2)	100.

Busses & Trucks

Passenger Bus	10,000.
Mail Truck	1,250.
Official Car	1,000.

Gas Pumps & Tanks

1,500.

Radio Equipment

7,500.

Weather Instruments

2,650.

Furniture

2,500.

Contingencies

5,000.

Total

\$133,385.

• Class B Airports at Section Terminals

Structures

2 ship hangar	\$25,000.
Passenger Station	15,000.
Water, Telephone & Electric	2,000.

Field Equipment

Chevrolet Truck	1,100.
Ford Tractor	750.
Tail Dollies	150.
Fire Exting. (2)	25.
Field Tools (1 set)	480.
Hand Starter	25.

[Vol. 3291]

Busses & Trucks

Passenger Bus	5,000.
Mail Truck	1,250.
Official Car	1,000.

Gas Pumps & Tanks

1,500.

Radio Equipment

7,500.

Weather Instruments

2,650.

Furniture

1,500.

Contingencies

2,500.

Total

\$67,430.

Class C Airports at Intermediate Stops

Structures

Field Office	5,000.
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Field Equipment

Chevrolet Truck	1,100.
Tail Dollie	150.
Fire Exting. (2)	25.
Field Tools (1 set)	480.
Hand Starter	25.

<i>Autos & Trucks</i>		
Mail Truck (Chevrolet)	\$ 600.	
Passenger Car	3,000.	
<i>Gas Pumps & Tanks</i>	1,500.	
<i>Radio Equipment</i>	7,500.	
<i>Weather Instruments</i>	2,000.	
<i>Furniture</i>	500.	
<i>Contingents</i>	1,000.	
	\$22,000.	
2. Class A. Airports at Cristobal and Lima	\$20,770.	
Less allowance for Pan American Airways		
facilities contemplated at Cristobal	67,400.	\$199,770.
5. Class B. Airports at Guayaquil, Iquique		
and Valparaiso		200,000.
12. Class C. Airports at Jurado, Buenaven-		
tura, Tumaco, Bahía de Caranques, Talara,		
Trujillo, Ica, Moledondo, Arica, Antofa-		
gasta, Caldera, and La Serena		275,400.
1. 4 Ship Hangar at Talara		
Extra facilities for housing Customs Offi-		
ces at Jurado, Bahía de Caranques,		
Talara, Arica, Moledondo and Tumaco		25,000.
		\$736,770.

[fol. 3292].

Notes:

- (a) Large hangar required at Talara as this point is the junction of the sea route from the North and the land route from the South and requires accommodation for both Amphibian and land planes overnight.

CAPITAL EXPENSES

Grading and Leveling of Fields; Construction of Ramps

Airport at Cristobal (Addl. to P.A.A. facilities)	\$10,000.
" " Jurado (Ramps)	2,500.
" " Buenaventura (Ramps)	2,500.
" " Tumaco	2,500.
" " Bahia de Caraquez (Ramps)	2,500.
" " Guayaquil	2,500.
" " Talara (Grading & Leveling)	5,000.
" " Trujillo	5,000.
" " Lima	000.
" " Ica	5,000.
" " Mollendo	10,000.
" " Arica	5,000.
" " Iquique	5,000.
" " Antofagasta	5,000.
" " Caldera	5,000.
" " La Serena	5,000.
" " Valpariso	5,000.
Contingencies	20,000.

 \$97,500.
*Organization and Development**Training personnel 60 days prior beginning service*

Operations personnel	48,000.
Traffic Department personnel	24,500.

Transportation of personnel to destination

Operations personnel	18,000.
Traffic Department personnel	14,000.

Telephone, Telegraph and Cable

1,200.

Negotiating "Operating Rights"

In Ecuador, Chile and possibly Colombia,
Panama and Peru already obtained.

10,000.

Delivery of Equipment

Crateage, shipment, handling and freight charges.	
Customs brokerage, etc. at 5% of equipment costs.	48,000.

Development Costs

50,000.

Contingencies

15,000.

[fol. 3293]

RECAPITULATION
OF
EXHIBIT 1 -- ESTIMATED CAPITAL INVESTMENT

INVESTED CAPITAL

Flight Equipment	\$627,000.	
Airports	736,790.	\$1,363,790.

CAPITAL EXPENSES

Grading and Leveling Fields; Const. Ramps	\$97,500.	
Organization and Developments	228,700.	326,200.

TOTAL CAPITAL INVESTMENT \$1,689,990.

[fol. 14]

*Exhibit II.**Estimated Annual Operating Costs.**Executive and General Expense**(New York Office)*

President)	
1st Vice President)	
Vice President--Foreign Nego-)	
tiations)	
Comptroller)	
Assistant Treasurer)	
Chief Operations Engineer)	
Asst. Operations Engineer)	
Airways Engineer)	
Commercial Engineer)	
Communications Engineer)	
Clerical and Stenographic Force	)	Amount chargeable
Executive Office Rental	)	to West Coast
Telephone, Telegraph and Cable	)	Division is based
Stationery and Printing	)	on proportion of
Travelling Expenses	)	total expenses to
Advertising	)	total flying mile-
Public Relations	)	age of Pan American
Legal Consul	)	Airways System
Directors Fees	)	or at \$.046 per
Insurance	)	flying mile.
Depreciation on Furniture and)	
Fixtures)	
Contingencies)	

\$53,680.00

Accounting (In the field)

Accountant	3,000.00
Section Bookkeepers (3) at \$2,400	7,200.00
Clerk	2,340.00
Office Rentals--Guayaquil, Lima,	
Antofagasta and Valparaiso at \$1,500	3,000.00
Telephone, Telegraph & Cable	500.00

Stationery and Printing
 Traveling Expenses
 Depreciation, Furniture & Fixtures
 Contingencies

\$ 1,200.00
 4,000.00
 1,000.00
 3,000.00

Total Executive and General

\$79,020.00

Traffic

Traffic Manager
 Assistant Traffic Manager
 Section Traffic Managers (3) at \$4,200
 Clerks (City Agents) (3) at \$2,340
 Porters (4) at \$4,200
 City Office Rentals (4) at \$1,500 1/2 Exp.
 Telephone, Telegraph & Cable
 Stationery and Printing
 Advertising
 Travelling Expenses
 Depreciation, Furniture & Fixtures
 Contingencies

10,000.00
 6,000.00
 12,600.00
 7,020.00
 4,800.00
 3,000.00
 5,500.00
 1,400.00
 20,000.00
 8,000.00
 1,000.00
 7,000.00

\$86,320.00

[fol. 3295] *Operations*

Flight Supervision

Manager of Operations (West Coast Div.)
 Section Flight Superintendents (3) at 7,200.
 Field Managers (17) at \$4,500.
 Field Clerks (6) at \$2,200.

\$12,500.00
 21,600.00
 75,500.00
 13,200.00

122,800.00

Flight Service

Pilots (14) at \$7,500.
 Flight Mechanics (14) at \$4,200.
 Flight Radio Operators (14) at \$3,300.

\$104,000.00
 58,800.00
 46,200.00

\$209,000.00

Daily Maintenance & Line Service

Chief Mechanics (2) at \$3,900
 Mechanics 1st Class (17) at \$3,600
 Mechanics 2nd Class (6) at \$2,400

\$ 7,800.00
 61,200.00
 14,400.00

Mechanics Helpers (6) at \$1,500.	\$ 9,000.00
Travel and Maintenance	10,800.00
Stationery and Printing	2,500.00
Telephone, Telegraph & Cable	5,000.00
Contingencies	10,000.00
	<hr/>
	\$120,700.00

General Repairs and Overhauls

Maintenance Manager	\$ 7,500.00
Shop Superintendents (2) at \$6,000	12,000.00
Airplane Mechanics (2) at \$3,600	7,200.00
Engine Mechanics (2) at \$3,600	7,200.00
Instrument Mechanics (2) at \$2,400	4,800.00
Welders (2) at \$2,400	4,800.00
Woodworkers (2) at \$2,400	4,800.00
Duraluminum experts (2) at \$2,400	4,800.00
Helpers (4) at \$1,800	7,200.00
Stockroom clerks (2) at \$2,400	4,800.00
Stockroom helpers (2) at \$1,800	3,600.00
	<hr/>
	\$68,700.00

Spare Parts, Supplies and Accessories

Airplane Spares at \$2. per hour	\$23,336.00
Engine spares at \$3.00 per hour	35,004.00
	<hr/>
	\$58,340.00

Fuel & Lubricants

623,880 gals. Gasoline at \$.35	\$218,358.
62,388 gals. Benzol at .42	24,202.
40,957 gals. Oil at \$1.00	40,957.
Grease and Wasteage	9,353.
	<hr/>
	\$292,870.

Communications

Ground Station Operators (17) at \$2,400	\$ 40,800.
Airplane Sets (Rented R.C.A.) (10) at \$100 per month	12,000.
	<hr/>
	\$ 52,800.

3383

Clearance and Consular Fees

\$ 37,440.

[fol. 3296] *Insurance*

Flight Equipment, incl. Pass. liability at 20% \$12,400.
 Ground Equipment at 4% 10,596.

Workmen's Compensation

(a) Flying crew at \$200. each 8,400.
 (b) Ground personnel at .01% (of payroll) 500.

\$144,896.

Depreciation and Obsolescence

Airplane—2,000 hours \$212,947.
 Engines—1,000 hours 77,845.
 Miscellaneous Equipment—4 years 3,000.
 Ground Equipment—4 years 66,215.

\$360,007.

Airways

Division Airway Superintendent \$ 4,200.
 Upkeep & Maintenance at 5% value of structures 19,675.
 Depreciation Airport Structures—10 yrs. 30,350.
 Insurance Airport Structures at 1% 3,635.

\$67,860.

Bus Transportation and Trucking

Chauffeurs (17) at \$2,600 \$44,200.
 31,024 gals. gasoline at \$.25 7,756.
 1,551 gals. oil at \$.45 698.
 Repair parts and accessories at .05 per mi. 7,756.
 Depreciation—4 years 19,712.
 Insurance 3,154.

\$84,276.

Interest on Capital Expenses at 6% \$19,372

Amortization on Capital Investment—10 years \$168,999

RECAPITULATION OF EXHIBIT II—ESTIMATED ANNUAL OPERATING COSTS

Executive and General (incl. Accounting)	\$79,020.
Traffic	86,320.
Operations	1,467,553.
Airways	67,160.
Bus Transportation and Trucking	83,276.
Interest	19,572.
Amortization	168,999.
TOTAL OPERATING COST PER YEAR	\$1,971,900.
OPERATING COST PER ONE WAY TRIP	\$6,320.
OPERATING COST PER SHIP-MILE	\$1.69

[fol. 3297]

EXHIBIT III ESTIMATED ANNUAL REVENUE

Airway Mileage	3400
156 Southbound trips per year	530400 miles
U. S. Foreign Mail Contract—Rate per mile	\$2.00
Estimated Revenue this Source	\$1,060,800.

Note:

No allowance made for other Revenue which might accrue from Passenger and Express Traffic on North-bound run; or from intermediate Air Mail, Money Order business, Special Flights, Photographic Work and similar sources.

A conservative estimate of this revenue after allowance of 5% commissions to Agents, including W. R. Grace & Co., on an estimated 30% of the total business would be \$1.00 per flying mile.

[fol. 3298]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 336

PAN AMERICAN GRACE AIRWAYS, INC.

No. 2.

Cristobal, Canal Zone.

June 21st, 1929.

Mr. J. D. MacGregor,
 Vice President & General Manager,
 Pan American Grace Airways, Inc.,
 c/o W. R. Grace & Company,
 Lima, Peru.

Dear Mr. MacGregor:

This will serve as a memorandum of matters discussed with you and Mr. Harris in connection with the preparation of an operating budget for our Company.

PERSONNEL:

Mr. Harris will be in charge of operations of the entire Line with headquarters at Cristobal. The Line will be divided into three divisions:

- No. 1— from the Canal Zone to Guayaquil in charge of Mr. Gillespie as Flight Superintendent.
- No. 2— covering the Line in Peru in charge of Mr. Travis as Flight Superintendent.
- No. 3— covering the Line in Chile and an extension to Argentine in charge of Mr. Williams as Flight Superintendent.

It is estimated that we will require three Pilots in Chile including the Flight Superintendent, three in Peru including the Flight Superintendent, and two in the Canal Zone including the Flight Superintendent. We will require six mechanics to travel with the planes, that is, one with each Ford and one with the Sikorsky. It is, of course, understood that not all of these will be required until all of the Fords are in operation. There will also be required two or three wasp mechanics for shop overhaul work and about

[fol. 3299] fifteen assistant mechanics and miscellaneous laborers.

OVERHAUL SHOPS:

These are suggested at Lima, Santiago and at the Canal Zone, although at the latter point we may be able to make some arrangements to share at least some of the facilities of the Pan American Airways. It was suggested that shop buildings would cost about \$5,000, and the equipment about \$15,000, at each point. The shop building item, however, is to be omitted at least for the present and we will use space in the rear of the hangars. The item of \$15,000, for equipment is believed to be unnecessarily high and the actual cost of this item should work out substantially less. You indicated that the shop equipment required would consist of Universal metal work machinery, lathe, shaper, drill press and wash repair equipment.

W. R. Grace & Company, as you know, controls the International Machinery Company, which has offices in Lima and Santiago, and which will be in a position to quote prices on shop equipment, and I think prices should be obtained from them as well as the Pan American Airways, and purchase made where they can be made the cheapest.

HANGARS:

These were suggested for Lima and Santiago and perhaps at one other point to be decided upon.

At the Canal Zone it is anticipated that we will be able to arrange for space in the Pan American hangar.

Size of the hangar proposed 100' by 18'. On the basis of a price which you secured from Rieter and Pincus of £575—CIF Callao, for a hangar 55' by 75' by 18' [fol. 3300] and price of \$24,000, at which the Peruvian Government was negotiating for two hangars 100' by 200', it would seem as if we should be able to arrange for these at a cost of not over \$12,000, erected. It was suggested that some saving in the original cost and maintenance might be effected by using adobe side walls. Before contracting

hangars I think we should obtain competitive prices in the United States, England and Germany. W. R. Grace & Company, as you know, has the agency for Milliken Brothers, and I believe we could secure foreign prices thru our subsidiaries, The British Foreign Machinery Company, London, and Kiefer Heluke & Company, Hamburg. In case the U. S. price is practically the same as foreign prices, it should, of course, have the preference; if, however, there is a substantial difference, we should endeavor to use the less expensive equipment provided we can do so without violation of our Mail Contract.

FLYING FIELDS:

Guayaquil—It is understood that we can use the Government field by incurring a few minor expenses.

Peru—It is understood that we can use the Government fields and arrange to have them under our control by small expenditures on the fields not exceeding an average of \$500. per field. A field of 140 acres at Lima can be purchased for about \$20,000., but we are to endeavor to avoid this capital investment as long as possible.

Chile—We are to use the Government fields as long as possible, in the meantime, Mr. Hoyt, Mr. Tripp and I decided before I left New York that we would ask Mr. Metzner to quietly investigate available locations in such a way that it would not appear that either Pan American [fol. 3301] Airways or Grace were interested parties in order to get in hand, when needed, some suitable field near Santiago at a reasonable price, I would suggest that you discuss this with Mr. Metzner, and the same procedure incidentally might be followed with Mr. Redshaw in Lima.

PASSENGER AND SHORT STOP ACCOMMODATIONS:

At fields where short stops are made it was suggested that a Milliken portable sheet metal house, obtainable from local offices of W. R. Grace & Co., or a small thatch building, each costing about \$500, be arranged. It was indicated that 10 or 15 of these would be required. They would be

as small as practicable to provide minimum passenger accommodations and storage for gasoline, oil and supplies. A watchman at a salary of \$20. per month may be required at each of these places and it was suggested that he might live in the building. In that case, it may be necessary to provide outside under-ground gasoline storage and I think it will also be necessary that we find watchmen with little or no family.

At Lima and Santiago better passenger accommodations will probably be required, but here again we are to adhere to strictest economy. While it will, of course, be a short-sighted policy to have our accommodations too small, I believe it will be equally bad policy to be too far-sighted in this matter. Our passenger movement is not going to assume enormous proportions over night and we cannot afford to provide accommodations too far ahead of the trade. If we proceed on a moderate basis, I believe by the time larger passenger accommodations are required, our original facilities will be written off and we will, in the meantime, have saved interest and maintenance charges on idle [fol. 3302] capital for a period of years, and when larger passenger movement comes, we will have the income to provide better accommodations. You considered that at Guayaquil in addition to some passenger accommodations you would probably require a ramp to bring planes ashore which might cost as much as \$5,000.

MOTOR CARS:

It was stated that you would require a Ford station wagon costing about \$1200. at Guayaquil and Talara and perhaps a car at Lima. My feeling is that we should only purchase cars where absolutely essential and then only when we have actual figures showing the comparative cost of owning cars and paying hire. As long as we have only a weekly service we are not going to have much active service for a car in most places. We will never-the-less have the constant expense of paying some one to run the car while interest and depreciation at a heavy rate will be adding materially to our operating cost.

It is my experience that when actual comparisons are made between the cost of owning a car and hiring one, it is surprising to find how often the figures strongly favor the latter course.

GENERAL:

It is understood that upon completion of this survey you and Mr. Harris will submit to the Directors a complete detailed budget showing total capital investment required for the service and an operating budget. It is likely that Mr. Vidal will be in Lima upon your return from Chile, and if so, you will, I take it, find it convenient to avail of his assistance in preparing your actual budgets. These figures should be prepared on the ground so as to avoid any misunderstanding between you and Harris, and in order that points of doubt, which always arise at the last moment, may be immediately straightened out. No commitments are to be made until we have this complete picture, because if we go about it piece-meal, we are not only likely to get a non-standardized miscellaneous lay-out, but we are very likely to spend in the aggregate much more than originally contemplated. Moreover, it will be necessary to go over the whole lay-out with Mr. Trippe before going ahead, as it was impossible to do so before you left.

We should not, therefore, start in on any program covering the matters mentioned in this letter until the Directors have the whole program before them in its entirety so that they can decide how much is to be appropriated for the entire operation.

Yours very truly,

HAROLD J. ROSE

HJR CAM

[fol. 3304]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 337

SANTIAGO, 5th December, 1930.

D. S. Iglehart Esq.,
W. R. Grace & Co.,
NEW YORK.

Dear Mr. Iglehart,

I have yours of November 11th. The concession matter is going rather badly, and the battle is not made any easier by the fact that such indifferent support can be counted on from our associates in the rear. The withdrawal of my No. 69 was to prevent what looked like an impasse on the Board and to endeavour to force our associates to contribute something constructive to this negotiation, and, in so doing, appreciate my position. So far, except for Rihl whose assistance and cooperation were splendid, our associates have not contributed a single idea, and I cannot understand why they should continue a purely negative or at best indifferent attitude in the face of the very serious situation confronting the Company. Their idea of letting matters drift until June, if there is the slightest chance of reaching any reasonable practical settlement now, cannot be justified on any sound consideration based on the interest of Panagra. I think that somehow back of their attitude is the idea, which I know that Trippe and MacGregor have, that Grace is getting some collateral benefit from the payment to the Government. Nothing, of course, could be further from the facts, and no more disinterested service than is being given by the Grace managers here can be even imagined. You might talk this point over with Patchin, however, and it may be necessary for you to clear it with Hoyt.

The Postmaster's announcement that all necessary South American airmail routes are now operating, except the line to La Paz, and that his recommendation of a second trip on the East Coast has been rejected, must leave our friends in an extremely tight position, as I assume that in view of the Government deficit it is hardly likely that even Bruce Bar-

tion will be able to persuade Congress to reverse this position. One trip a week on the East Coast is going to mean an out and out loss of from 50c to \$1 per mile for every mile flown. Failure to extend the line to Buenos Aires means that their investment at that point becomes a loss, or worse if they try to salvage it by local operations. But even more important, the investment made to bring about the NYRBA merger, which was only justified at all if it insured their getting a satisfactory East Coast contract to Buenos Aires, now turns out to be a most doubtful investment. It seems to me quite in the cards that this combination of circumstances may precipitate a serious crisis on 42nd Street, especially if anyone ever takes the trouble to really look into the way that business is run. Unless the company has done more new financing since I left, I believe they would be in a tight position already were it not for the fact that, for 1935, the heavy depreciation and obsolescence reserves provide cash for working capital for a long time.

A corps of lawyers is still working here on the Coughlin laws, etc., and Mr. Chambers, the City Bank financial adviser, is still here. There was rumour about the other day that the financing had been accomplished. I doubt if anyone expects seriously that the original plan will be carried out, but it is still generally felt that a plan on a reduced scale will somehow be carried out.

Mr. Callerton mentioned to me yesterday that you had sometime ago proposed him for membership in India House, but that he had never heard anything further about it. He said he understood that he was proposed for membership in some class where prompt action was to be expected. I told him I would mention it to you. I do not think he is at all anxious to have the matter pressed at this time, and I would suggest that nothing be done to press it without consulting him first. It might be well, however, to see just how the matter stands and drop him a line.

Very sincerely yours,

HJF:FL

[fol. 3306]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 338

roig
 cable 33 to ROLG (santiago) 12.12.30
 9 o'clock at night.

- 1 33 strictly
- 2 private and confidential following
- 3 which does not represent
- 4 (our) views is
- 5 Grace (correction sent in cable #37)
- 6 from Trippe
- 7 several panair
- 8 director's believe
- 9 inadvisable accept
- 10 pending decree
- 11 or modification
- 12 promised on
- 13 principle now
- 14 under discussion
- 15 if any migre
- 16 onefous to
- 17 company than
- 18 draft agreed to (on)
- 19 by Rihl
- 20 Daguine with
- 21 two government
- 22 representative's our friends
- 23 appointed with
- 24 minor changes
- 25 exact wording
- 26 which panagra
- 27 director's have
- 28 since authorized
- 29 sentence ends for your information
- 30 panair directors
- 31 appreciate fact
- 32 chilian government maintaining
- 33 panagra committed to
- 34 payment 500,000

34 pesos on account of
35 having operated
36 under decree
37 2 000 1 sentence ends
38 principle that the
39 ——— consideration to be
40 received from the government
41 for spending
42 500,000 pesos
43 is right fly
44 four or

continued.

[fol. 3307.]

[PAGE 2]

45 eight years is untenable
46 and contrary all
47 precedent all countries
48 world sentence ends
49 board appreciates
50 fully all
51 sovereign nations
52 have right
53 refuse permit
54 foreign lines
55 fly until
56 both country
57 concerned and
58 nation of company
59 have ratified
60 some convention
61 granting reciprocal
62 privileges for instance
63 Iata comma
64 Iberian
65 or pan american aviation
66 convention sentence ends last
67 convention
68 which both
69 chile and united states
70 executed but
71 not yet ratified
72 recognizes principle

73 QUOTE In time
 74 peace countries
 75 extend right of (to)
 76 innocent passage to
 77 aircraft of
 78 other-s subject
 79 only requirement-s
 80 aircraft of
 81 other-s conform to
 82 technical standards
 83 required by the
 84 government of its
 85 own commercial
 86 aircraft from time to time
 87 QUOTATION ENDS in view of your
 88 opinion that
 89 government apparently
 90 unwilling consider
 91 modify pending

continued.

[fol. 3308]

[PAGE 3]

92 decree please
 93 cable your opinion (re) following
 94 plan based
 95 entirely different
 96 principle which
 97 if diplomatically
 98 presented by
 99 daguine these
 100 director-s believe
 101 should be acceptable
 102 government sentence ends first
 103 panagra offer-s to pay 500,000
 104 pesos full
 105 settlement any
 106 past obligation-s
 107 government or
 108 our friend-s consider
 109 company assumed

- 110 by having
- 111 operated under
- 112 decree 2000
- 113 1 second
- 114 government to issue
- 115 decree permitting
- 116 company operate
- 117 international services
- 118 peru santiago
- 119 argentine route
- 120 carrying international
- 121 passengers mail
- 122 freight subject
- 123 published clearance
- 124 requirements both
- 125 borders and
- 126 landing fees and
- 127 technical safety
- 128 requirements as
- 129 provided in governments
- 130 commercial aviation regulations
- 131 applying to aircraft
- 132 of chilian
- 133 registry sentence ends
- 134 permit also subject
- 135 right of government
- 136 to terminate on
- 137 reasonable notice
- 138 make period

continued.

[fol. 3309]

- 139 long as
- 140 possible for your confidential information
- 141 and to transmit
- 142 ambassador if you consider it advisable
- 143 Quofe in time
- 144 peace countries
- 145 extend right of
- 146 innocent passage
- 147 aircraft of

148 other-s subject
149 only requirement-s
150 aircraft of
151 other-s conform to
152 technical standard-s
153 required by the
154 government of its
155 own commercial
156 aircraft UNQUOTE
157 is cardinal
158 policy we understand
159 of united states on
160 international aviation
161 and essential if
162 long trade
163 route-s now
164 subsidized be
165 developed properly
166 to avoid risk
167 long route-s
168 degenerat-s
169 ing into
170 section-s operated
171 by individual
172 countries sentence ends this
173 also policy
174 England France
175 Germany on
176 international aviation

TRIPPE

[fol. 3310]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 339

Minutes of a special meeting of the Board of Directors of Pan American-Grace Airways, Inc. held at the office of Pan American Airways, Inc., 122 East 42nd Street, New York, N. Y. on the 28th day of January, 1934 at 4 o'clock in the afternoon.

PRESENT:

Messrs. W. F. Cogswell
R. F. Hoyt
R. H. Patchin
H. J. Roig
J. T. Trippe

being a quorum of the Board.

Mr. J. D. MacGregor, Vice President and General Manager of the corporation, was also present.

Mr. Hoyt called the meeting to order and on motion duly made and seconded was appointed Chairman of the meeting. Mr. Cogswell, Secretary of the corporation, acted as Secretary of the meeting.

Mr. MacGregor reported that the matter of the Chilean concession had now been arranged in accordance with the authorization of the Board at the last meeting and that pursuant to the understanding reached we should accordingly make payment of 500,000 Chilean pesos in settlement of the controversy under the old decree. On motion duly adopted, the officers were directed to make payment accordingly and to express to the American Ambassador in Chile the Company's appreciation of his services in bringing about this settlement.

It was the sense of the meeting that the bills of Pan American Airways, Inc. and W. R. Grace & Co. for services up to and including December 31, 1930, should be settled as soon as possible. Messrs. Trippe and Patchin were requested to endeavour to settle all of such bills on or before February 15th and, if there should be any items on which they should not be able to agree by that date, to

report the same to the Board of Directors, which thereupon would appoint an independent auditor as arbitrator. In respect to the expenses of Mr. Summers at Buenos Aires, it was decided that his account should be audited by a representative of the Pan American Airways, Inc. and Mr. Vidal, representing this corporation.

Mr. MacGregor was instructed to confer as soon as possible with W. R. Grace & Co. and Pan American Airways, Inc. and prepare form of agreements with such companies for services commencing January 1, 1931.

On motion duly adopted, Mr. MacGregor was authorized to retain Price, Waterhouse & Co. to audit the accounts of the corporation and its subsidiaries at New York, Cristobal, Lima and Santiago for the year 1930 at a charge of \$2,000.

Mr. MacGregor reported to the meeting that the present space occupied by the corporation in the Chanin Building was inadequate and, on motion duly adopted, was authorized to lease, in the name and on behalf of the corporation, additional space in the Chanin Building provided the [fol. 3312] total rental, including that payable under the present lease, should not exceed \$5,000 and provided further that the lease of the additional space should expire at the same time as the present lease.

Mr. MacGregor reported to the meeting that the Scadta Company had discontinued its service between Buenaventura and Guayaquil and that we were at present accepting mail from Scadta at Buenaventura for delivery at Guayaquil under a temporary arrangement, whereby we receive 10¢ U.S.G. per 20 grammes. It was decided that the Scadta Company should be advised that the charge for such mail would be \$6.00 per lb. so that it would be in line with our other airmail charges; also that an endeavour should be made to make an arrangement with Scadta whereby they should agree not to turn over their Ecuadorian concession to the Latecoere.

The question was then considered as to what action should be taken by the corporation in reference to application by
air

Latecoere for the right to carry Peruvian mail to Bolivia, Paraguay and Brazil on the ground that this corporation

was not at present supplying an airmail service to those countries. On motion duly adopted, it was resolved that the proper officers of the corporation should advise the Latecoere that we would be willing for the present to turn over to it Peruvian airmail for Bolivia at Arica and for Paraguay and Brazil at Buenos Aires.

It was reported to the meeting that Mr. Harris proposed, [fol. 3313] applying for radio rights in behalf of this corporation in Peru. On motion duly adopted, it was resolved to instruct Mr. Harris to take no steps in this direction pending the adoption of a radio program.

There being no further business, the meeting adjourned.

/s/ RICHARD F. HOYT

Chairman of the Meeting

/s/ W. F. COGSWELL

Secretary

[fol. 3314]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 340

TO THE DIRECTORS OF PAN AMERICAN GRACE
AIRWAYS, INC.:

New York, N.Y.

March 4, 1931.

Gentlemen:

The attached statements show that our estimated loss for the period 1929-1930 will be approximately \$112,000. These figures were arrived at after capitalizing \$98,000 during 1929, and \$62,000 during 1930, as per details shown on the attached statement.

It also includes all 1929 bills at face value, and \$125,000 maximum amount to cover Pan American Airways overhead and Grace Agency fees in Peru and Chile during 1930. It does not include the payment of \$60,000 made to the Chilean Government, because that payment was made in 1931.

Referring to the statement, you will notice we have taken as a charge to surplus \$457,900 to cover two year obsolescence on aircraft and two year obsolescence on all motors, including spares. Inclusion of the above figures, you will

note produces an estimated deficit for tax purposes for the entire Panagra operations to date of \$112,000. On this basis, by June of 1931 all aircraft with the exception of the Falcon, and practically all our motors will be wiped off the books. It is evident, therefore, that subsequent to June 1931 the current obsolescence charges will practically vanish, and we will be faced with the accumulation of a large surplus in the last six months of 1931, unless we purchase corresponding new equipment. The above deficit includes every conceivable class of airplane insurance on [fol. 3315] multi-motor equipment. We are re-building and overhauling planes as they require it, and when the planes are written off on the books, they will still be in excellent operating condition. It is evident also for tax purposes, we cannot continue obsolescence and include the amounts in our tax returns.

Under these circumstances, the management recommends that an adjustment of our depreciation and obsolescence reserves be made, retroactive to the beginning of operations.

Heretofore, we have followed the Panair rules for depreciation and obsolescence of aircraft, and in addition, our Directors decided to establish two-year obsolescence on all motors. Panair recently changed their bases to three years on Fords, Sikorskies and lesser aircraft, and 2000 hours on motors. The difference between our present basis and the new Panair basis you will note amounts to \$193,000. Were we to use the Panair new basis, therefore, we would have a surplus of \$81,000 at the end of 1930, instead of the present deficit of \$112,000.

If the Directors consider that it would be unwise to show such a profit for the two year period, there is the alternative of going back to the old Panagra basis of two years obsolescence and 1500 hours life. This, you will note, would make a difference in our surplus account of \$95,000, and would produce a deficit for the two year period of \$17,000.

Respectfully,

/s/ J. D. MacGregor,

J. D. MacGregor,

Vice President & General Manager.

[fol. 3317]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 341

PAN AMERICAN-GRACE AIRWAYS, INC.
 122 EAST 42ND STREET NEW YORK, N. Y.

CABLE ADDRESS
 "PANAGRA"

[Handwritten notation—File for Tues. Am—Panagra Meeting—March 10th]

TO THE DIRECTORS OF PAN AMERICAN-GRACE
 AIRWAYS, INC.

NEW YORK,
 March 6, 1931.

Gentlemen:

The Pan American Airways proposal for operating and maintaining a complete communications system for our operations, from Cristobal to Montevideo, consisting of two-way communication between ground and airplane and inter-airport communication for traffic and airplane control, was submitted to your Manager on March 3rd.

The proposal as submitted amounts to an undertaking on the part of Pan American Airways to operate and be responsible for an adequate and efficient communication system; including a guarantee that the equipment to be furnished would insure a reception and transmission exchange of 98%.

Pan American Airways undertakes not only to furnish the equipment, but to handle negotiations for us in Colombia, Ecuador, Peru and Chile, with a view to securing for us and in our name the necessary rights and permits to install and operate ground stations and plane sets. We are also permitted to avail ourselves of the rights already acquired by Pan American Airways in the Canal Zone, Panama, Argentine and Uruguay.

Pan American Airways also undertakes to handle for us all matters by which our radio service might be affected [fol. 3318] by reason of international regulations promulgated by the International Bureau of the Telegraph Union at Berne, Switzerland.

The project further provides for the furnishing of all plane and ground expert personnel and the assignment of a special radio expert in charge of communications along our route.

Provision is also made for Panagra to share, to the extent of 75%, in any income that might be forthcoming from the sale of the services of the communication system to outside parties, until the income thus derived equals the current bills passed to us by Panair for said services.

It is now a year since your Management first recommended the use of Pan American Airways' radio equipment for our entire operations in South America. That recommendation was based on a personal survey of the route and after thoroughly discussing the matter with Mr. Harris and with our pilots. During the year Mr. Harris has consistently urged that radio be installed wherever we carry passengers.

There are four vital reasons why we should not hesitate longer in taking immediate steps to give effect to the recommendations of our operating officials and flying personnel.

First. The safety of passengers and crew is greatly enhanced by the advantages of first class radio communication. It is true that since the beginning of operations we have carried passengers in Peru without radio, and without accident, and that radio communication would not necessarily prevent an accident, but if this Company is unfortunate enough to experience anything in the nature of injury to life and limb, in its operations, the primary criticism would be that the plane did not carry radio.

[fol. 3349] Immediate contact with ground stations is a moral support not only to passengers but to the pilot, the value of which should not be underestimated. Our pilots and a great number of our passengers know that Pan American Airways have an efficient system of radio communication, and are unable to understand why we do not avail ourselves of the equipment. The necessity for prompt receipt of meteorological information is vital all along our route for the safeguarding of the mails and passengers. The pilot is not left so much "on his own" when he can base his judgment upon known atmospheric conditions, and the passengers feel they have a link with mother earth.

Second. The operating efficiency of the line will be greatly increased. An immense amount of unavailing flying will be obviated.

On the 3rd of June I sent to the Directors a copy of a letter received from Mr. Harris, dated May 26, 1930, in which he stated that on account of lack of radio a total flying distance of 1200 miles was necessary. The anxiety felt by everyone as to the whereabouts of two planes in bad weather could have been obviated had we been able to communicate with the planes. This is only one of many instances in which better operating efficiency could be obtained by the use of radio.

Third. By means of radio service it is evident that an appreciable reduction in cash disbursements in cable and telegraph tolls would be made. These expenses for L. 570 have averaged approximately \$1500 a month, or \$18,000 annually. Not only would this expenditure be greatly minimized, but a great many other messages could be exchanged [fol. 3320] at no additional cost, which are not now exchanged because of costly telegraph and cable tolls.

For example, the cable rate to the Canal Zone is 30c per word, straight message, and 15c per word, deferred; to Peru the rate is 52c and 26c; and to Chile the rate is 42c and 21c. By means of radio communication our messages would arrive at the Canal Zone free of charge and would be transferred over Panair radio to New York at a cost, it is estimated, or not to exceed 2c per word. (There is, of course, at present, a toll of 6c per word at the Naval station at Balboa, but it is hoped that later arrangements will be made to obviate this charge.)

Fourth. We can expect competition from American and foreign companies during the period of our contract. The lack of radio communication, as well as other facilities, would enable these companies to compete with us at a minimum investment. The higher the rate of efficiency we demonstrate to the Governments and to the public, the less easy we make it for our prospective competitors, and the less likely we are to see those competitors gain equal rights. If these competitors do arrive, I consider they would rather pay us handsomely for the right to avail themselves of our

system of communication than to undertake the additional investment necessary to install and organize their own system.

Since your Management first recommended the use of Pan American Airways' radio equipment for our future operations in South America, various attempts have been made to secure from Radio Corporation, from All America Cables, and from International Telephone and Telegraph Company a proposition which would entirely meet our (fol. 3321) needs and carry with it an absolute guarantee of performance, but we have been unable to secure a similar proposition to that made us by Pan American Airways.

Your Management, therefore, again recommends that advantage be taken of this offer and that your Management be instructed to negotiate and execute a formal agreement for radio services along the lines set forth in the project and at the price therein mentioned.

In support of this recommendation your Management desires to point out that the inauguration of radio service will permit the carrying of international passengers in Chile and over the Andes from Santiago to Mendoza. It will also insure more efficient operations in Peru and the Argentine, and your Management is confident that in the next two or three years the additional passenger traffic thus obtained, plus the lower cost due to greater operating efficiency in performance and schedules, will at least equal the additional cost.

At the price quoted for a twice weekly operation, we would pay for the service in the neighborhood of \$120,000 annually. It is interesting to note that the addition of one single through passenger per trip, at a tariff of 12c per mile, would amount to \$112,000.

For the purpose of comparison, the following quotations have been received from All America Cables, the Radio Marine Corporation, and the International Standard Electric Corporation.

In order to set forth the various quotations they will be treated as separate subjects, and on this basis a quotation received from the All America Cables, dated July 23, 1930,

offered facilities for twelve ground stations only, between [fol. 3322] Cristobal and Montevideo via Santiago. For these facilities they quote a charge of \$89,692. per annum, without a performance guarantee, and a contract for a five-year period.

The Radio Marine Corporation quotation, dated November 5, 1930, covering sixteen airplane and seven ground stations, along the route from Cristobal to Arica, would amount to \$58,100. for equipment only without the supervisory service of the installation engineers. There is no guarantee regarding performance of equipment and it would necessitate our Company paying the annual cost of operation, organizing the staff, and employing sufficient personnel to handle all operations.

The International Standard Electric Corporation in their letter dated November 13, 1930, offer to supply two ground stations and one airplane set operating exclusively on telephone, for \$13,050. f.o.b. factory (Chicago), without guarantee of performance. This proposal was brought about through various discussions with the International Company, particularly referring to that section of the route between Santiago and Mendoza.

It must be remembered that most of the quotations were on the basis of delivery at New York or some point in the United States and do not cover the necessary freight and duties which would have to be paid in various countries of South America.

In connection with the general two-way communication in the United States, it is common knowledge that immense sums have been spent by operators in an endeavor to develop a satisfactory radio telegraph system of communications and that, so far, no striking success has been attained.

On the other hand, the Panair proposal not only relieves us of all expense and anxiety with regard to the availability [fol. 3323] and efficiency of the equipment, the acquisition of expert personnel, the patent situation, and the acquisition of rights in the countries mentioned, but also carries a guarantee of 98% efficiency with a penalty for services rendered below that efficiency point.

As a further justification of my recommendation I have had our Comptroller prepare an estimate of our operations, at present obsolescence, for a one-year period, on three bases, each of which bases carries an amount of \$120,000, for radio operations.

Plan ± 1 contemplates the purchase of two multi-motored ships for service in Chile. We have chosen the Curtiss Kingbird as being the only fairly low-priced multi-motored ship of sufficient range and speed with the operations of which we are familiar.

Plan ± 2 contemplates Sikorsky and Ford operations from Cristobal to Santiago, a Ford for the Andes, and single-motored flying equipment from Mendoza to Montevideo.

Plan ± 3 contemplates Sikorsky operations from Cristobal to Pimentel and Ford tri-motor operations from Pimentel to Montevideo, entailing the purchase of two additional Fords, now newly overhauled and available at Buenos Aires, for an estimated cost of \$30,000, each.

Plan ± 1 shows an actual book profit, after providing for obsolescence at our present rate and for radio communication at the figure quoted. Plans ± 2 and ± 3 show small book losses on the same bases. I would respectfully draw the Directors' attention, however, to our estimated cash position. Even under Plan ± 3 , the most costly, it would appear that our cash position would have improved by some \$428,000. This amount added to the actual available cash on hand of \$500,000, would make it appear that at the end of another year's operations, after the payment of all bills, including radio, there should be approximately \$1,000,000, in the bank.

I would respectfully request the Directors to consider this cash position in the light of my recommendation for the immediate acceptance in principle of Pan American Airways' offer for radio services.

Yours respectfully,

/s/ J. D. MacGREGOR
J. D. MacGregor.

JDM Q

[fol. 3325]

SUMMARY—PLAN 1

- | | |
|-----------------------|-------------------------------|
| 1) Cristobal/Talara | —3 Sikorsky |
| 2) Talara/Arica | —3 Fords—2 Fairchilds |
| 3) Arica/Santiago | —2 Kingbirds—2 Lockheeds |
| 4) Santiago/Monteideo | —1 Ford—1 Falcon—3 Fairchilds |
| | 1 Loering |

ESTIMATED

	<i>Revenue</i>	<i>Expenses</i>	<i>Profit</i>	<i>Reserves included under Expenses</i>
Cristobal/Talara	\$ 495,500.	\$ 444,600.	\$ 50,900.	\$100,000.
Talara/Arica	594,600.	555,600.	39,000.	200,000.
Arica/Santiago	407,500.	230,500.	177,000.	60,000.
Santiago/Monteideo	368,100.	338,800.	29,300.	150,000.
Radio Estimate	—	126,000.	120,000.	—
P.A.A. and Grace bills	—	100,000.	100,000.	—
	<u>\$1,865,700.</u>	<u>\$1,789,500.</u>	<u>\$ 76,200.</u>	<u>\$510,000.</u>

CASH POSITION

Estimated Revenue	\$1,865,700.
Estimated Expenses	\$1,789,500.
less—Reserves	510,000.
	<u>1,279,500.</u>
	\$ 586,200.
Purchase 2 Kingbirds and Spares	70,000.
Cash increase	<u>\$ 516,200.</u>

[fol. 3326]

SUMMARY—PLAN 2

- | | |
|-----------------------|-----------------------------------|
| 1) Cristobal/Pimentel | —3 Sikorskys |
| 2) Pimentel/Santiago | —3 Fords—2 Lockheeds—2 Fairchilds |
| 3) Santiago/Monteideo | —1 Ford—1 Falcon—3 Fairchilds— |
| | 1 Loering |

ESTIMATED

	<i>Revenue</i>	<i>Expenses</i>	<i>Profit</i>
Cristobal/Pimentel	\$ 563,700.	\$ 508,300.	\$ 55,400.
Pimentel Santiago	936,700.	823,500.	113,200.
Santiago/Monteideo	368,100.	338,800.	29,300.
Radio Estimate	—	120,000.	120,000.
P.A.A. and Grace bills	—	100,000.	100,000.
	<u>\$1,868,500.</u>	<u>\$1,890,600.</u>	<u>\$ 22,100.</u>

CASH POSITION

Estimated Revenue		\$1,868,500.
Estimated Expenses	\$1,890,600.	
Less—Reserves	480,000.	1,410,600.
Cash Increase		<u>\$ 457,900.</u>

New York, February 1931.

[fol. 3327]

SUMMARY—PLAN 3

- 1) Cristobal Pimentel —3 Sikorskys
- 2) Pimentel Santiago —3 Fords—2 Lockheeds —2 Fairchilds
- 3) Santiago Monteideo —3 Fords —1 Falcon —1 Fairchild —
1 Loening

ESTIMATED

	<i>Revenue</i>	<i>Expenses</i>	<i>Profit</i>	<i>Reserves</i>
Cristobal Pimentel	\$ 563,700.	\$ 508,300.	\$ 55,400.	
Pimentel Santiago	936,700.	823,500.	113,200.	
Santiago/Monteideo	413,500.	413,300.	400.	
Radio Estimate	—	120,000.	120,000.	
P.A.A. and Grace bills	—	100,000.	100,000.	
	<u>\$1,913,900.</u>	<u>\$1,965,700.</u>	<u>\$ 51,800.</u>	

CASH POSITION

Estimated Revenue		\$1,913,900.
Estimated Expenses	\$1,965,700.	
Less—Reserves	540,000.	1,425,700.
		<hr/>
Purchase 2 Fords		\$ 488,200.
		60,000.
		<hr/>
Cash Increase		\$ 428,200.
		<hr/>

New York, February 1931.

[fol. 3328]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 342

CHARLES A. LINDBERGH
25 Broadway
New York City

March 11, 1931

Mr. J. T. Trippe, President,
Pan-American Airways Inc.,
122 East 42nd Street,
New York City.

Dear Mr. Trippe:

In regard to the Pan-American Grace air lines along the West Coast of South America and across the Andes, it has frequently come to my attention that these lines are not being operated in a manner which conforms to the standards of Pan-American Airways. It is my opinion that passengers cannot be carried over these lines with the maximum degree of safety without the use of multi-motored aircraft capable of maintaining flight with at least one engine stopped, and aircraft fully equipped for maintaining radio communication with ground stations at all times.

There is no doubt in my mind that the present operation of the Pan-American Grace system is not only detrimental to the reputation of Pan-American Airways, but that any accident on the Pan-American Grace lines will be con-

sidered by the public as an accident on Pan American lines, and consequently as detrimental to Pan American as tho it had occurred on one of the lines owned and operated by the Company. I believe it to be essential to the best interests of Pan American Airways that all lines which in any way bear the name of the Company be operated according to the high standard which is maintained on routes completely controlled by the Company.

Sincerely,

s/ C. A. LINDBERGH

CAL:ES

[fol. 3329]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 343

Minutes of a special meeting of the Board of Directors of Pan American Grace Airways, Inc. held at the office of Pan American Airways, Inc., 122 East 42nd Street, New York City, N. Y. on the 18th day of March, 1931 at 3:45 o'clock in the afternoon.

PRESENT:

Messrs. W. F. Cogswell
R. F. Hoyt
R. H. Patchin
H. J. Roig
J. T. Trippe
C. V. Whitney

being all of the Board.

Mr. J. D. MacGregor, Vice President and General Manager of the corporation, was also present.

Mr. Hoyt called the meeting to order and on motion duly made and seconded was appointed Chairman of the meeting. Mr. Cogswell, Secretary of the corporation, acted as Secretary of the meeting.

The minutes of a special meeting of the Board of Directors held March 8th, 1931 were read and approved.

Mr. MacGregor reported to the meeting that contrary to expectations difficulty was being encountered in obtaining permission to carry cabotaje passengers in the Argentine in planes of American registry, but that Dr. Lopez was hopeful of being able to obtain such permission. On motion duly adopted, matriculation of planes of the corporation in the Argentine was authorized, provided it should be definitely established that it would not be possible to carry cabotaje passengers without doing so.

[fol. 3330] Mr. Hoyt presented to the meeting a letter signed by himself and Messrs. Trippe and Whitney, of which the following is a copy:

"March 17, 1931.

Board of Directors,
Pan American-Grace Airways, Inc.,
122 East 42nd Street,
New York, N. Y.

Gentlemen:

Referring to past discussions on the subject of providing adequate operating facilities for the route between the Canal Zone, Santiago, Chile, Buenos Aires, Montevideo, we wish to advise you of our position on this important matter.

1. We favor Pan American-Grace Airways, Inc. without further delay, supplying itself with an adequate radio communication system—a system that will permit its aircraft, while in flight, at all times to maintain regular two-way communication with one or more ground stations—a system that will provide Field Managers and flight personnel concerned with adequate meteorological information—a system that will permit of the prompt dispatch of aircraft arrival and departure messages so that operating officials concerned may receive prompt departure as well as "safe arrival" messages before leaving their post.

2. We favor Pan American Grace Airways, Inc. providing, or otherwise arranging for, suitable passenger stations at all ports of call. Such passenger stations, at land airports, to include radio quarters, waiting rooms and comfort facilities for passengers, and accommodations for the Field Manager. The passenger station or utility building of the general type erected at other points of the Pan American System might serve as a model.
3. We favor Pan American Grace Airways, Inc. inaugurating through passenger service to Santiago, Chile; and as soon as a formal survey can be made to justify it, extending passenger service across the Andes, at least during the period of good weather, to Buenos Aires and Montevideo. We favor operating only multi-engined equipment throughout the entire route, including that section between Montevideo and Mendoza (our approval was given some time ago to a [fol. 3331] temporary program involving carrying passengers across Argentine in single engined ships; in view of the fact that the single engined ships have now been practically written off our books, we favor the immediate installation of multi-engined equipment on this, as on all other portions of the route).

We feel that the cash position of the Company is now sufficiently strong to justify the immediate adoption of the above program. If the Board of Directors feel, however, that such is not the case, we would favor the Company securing any necessary additional cash to provide same; either in the form of a loan by its two stockholders, or by increasing its authorized capital stock and disposing of same to its two stockholders.

To summarize, we feel that the facilities outlined should be made available without further delay, not only in the interests of safety, but also to secure for Pan American Grace Airways, Inc., as the American operating Company on the West Coast, that definite "prestige" and "standing"

which its U. S. mail contract warrants, and which we feel the Post Office Department naturally expects.

Sincerely,

(sd) R. F. HOYT

(sd) J. T. TRIPLE

(sd) C. V. WHITELY

Mr. Roig summarized the views of the other directors on the points raised in this letter and stated that written reply would be made by the representatives of W. R. Grace & Co. on the Board.

On the question of radio Mr. Roig suggested that the proposal of Pan American Airways, Inc. be reduced to the form of a draft agreement which would clear up certain points not clear from the preliminary form of proposal and the matter then be considered in this form; that we be furnished with details of the 12¹/₂¢ charge in order to form our own opinion of its reasonableness as compared to the [fol. 3332] cost of providing the service ourselves or procuring it from outsiders, and that radio operation be limited at the outset to the runs between Cristobal and Guayaquil and between Arica and Memloza with provision for extension to the rest of the line as circumstances might warrant. On motion duly adopted, Messrs. MacGregor, Cogswell and a representative of Pan American Airways, Inc. were authorized to prepare a tentative form of contract as a basis for further discussion.

On motion duly adopted, Mr. MacGregor was requested to prepare a program based on the operation of multi-motored equipment between Cristobal and Montevideo and also a report on the present facilities along the line and what additional facilities he would recommend.

(Statement from Mr. Hoyt to be inserted)

Mr. Roig made a statement substantially as follows: It is naturally the desire of this corporation to cooperate with Pan American Airways, Inc. at Buenos Aires, the best example of this being our appointment of Pan American Airways, Inc. as our agents there. While he considers it

better business for the Post Office and for Pan American Airways, Inc. to serve Buenos Aires by the present West Coast route, which is the shortest and cheapest, and does not consider the proposed extension necessary or desirable, these are questions beyond the control of this company. Pan American Airways, Inc. have an undoubted right to extend their service to Buenos Aires and to operate in the Argentine (except between Buenos Aires and Mendoza) [fol. 3333] if they desire. On the other hand, the funds for the extension should not be obtained from the Post Office Department at the expense of Pan American Grace Airways, Inc., for example, by retaining the reduced compensation of \$1.60 a mile for the second trip after July 1, 1931 or by stopping operations of one trip at Santiago. No director of Pan American Grace Airways, Inc. is at liberty to be a party to such procedure in any form directly or indirectly or to take advantage of his position or information obtained as a director of this company to endeavour to bring about the foregoing result. If there is at any time any disposition to provide the East Coast extension at the expense of our service, we shall of course take whatever steps are necessary to resist it and to protect the interests of this corporation.

There being no further business, the meeting adjourned.

/s/ RICHARD F. HOYT
Chairman of the Meeting

/s/ W. F. COGSWELL
Secretary

[fol. 3334]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 344

NEW YORK
April 11, 1931

Memorandum to the Directors,
Pan American Grace Airways, Inc.,
New York City.

In accordance with your instructions, I hand you herewith statements prepared by our Comptroller covering estimated

yearly revenue and cost of operation between Cristobal and Montevideo on a twice a week basis, under five different plans.

Each plan includes as an item of expense the estimated annual cost of radio (\$120,000.) and also a \$100,000 reserve for Panair and Grace supervision, agency fees, etc. This reserve is set up in addition to bills paid currently, which are included in the expenses of the respective Divisions.

Yearly depreciation on possible future investments along the line is not yet available and has not been included in these figures.

The estimated revenue from passenger income between Cristobal and Arica (Divisions 1 and 2), as well as the revenue from all other mail and baggage income in all Divisions, is based upon the results for 1930.

Passenger revenue between Arica and Montevideo has been estimated on basis of one passenger per trip over the entire distance. Between Santiago and Montevideo one passenger per trip has been included under Plans 1 and 2, and two passengers per trip, under Plans 3, 4 and 5 (tri-motored operation).

Plan No. 1. This plan contemplates the use of three Sikorsky Amphibions between Cristobal and Talara, each flying approximately 900 hours per year. From Talara to Arica three Fords would be used, flying slightly under 1,000 hours each per year. Two Fairchild's would be held as spares in this section of the line.

Between Arica and Santiago two Kingbirds would fly slightly over 1,000 hours each, per year. There would be two Lockheeds held as spares. A Ford and a Falcon would be assigned to the Transandean run between Santiago and [fol. 3335] Mendoza. Three Fairchild's and one Loening would cover the distance between Mendoza and Montevideo.

The estimated profit under this plan is \$196,500. per year. Additional aircraft required:

- 1 Ford (to replace the San Cristobal)➤
- 2 Kingbirds

Plan No. 2. This plan contemplates the extension of the Sikorsky run to Pimentel, with three Amphibians flying slightly over 1,000 hours each, per year.

The Pimentel/Santiago section of the line would be covered by three Fords, two spare Lockheeds and two spare Fairchilds. Inasmuch as the total flying per year would be 5,000 hours, the three Fords could not do all the flying under this plan and we would have to rely upon the spare single-motored ships doing part of the flying, in addition to emergency flights.

The Santiago/Monteideo section of the line under this plan would be taken care of in the same fashion as under Plan No. 1.

The estimated profit per year would be \$136,600. Additional aircraft required:

1 Ford (to replace the San Cristobal).

Plan No. 3. This plan is similar to Plan No. 2 except two tri-motored Fords would be added to the Santiago/Monteideo Division, and the line placed on a multi-motored basis the entire distance between Cristobal and Monteideo.

The estimated yearly profit under this plan would be \$111,000. Additional aircraft required:

1 Ford (to replace the San Cristobal)

2 Extra Fords.

Plan No. 4. Three Sikorsky amphibians would also be run to Pimentel under this plan. Between Pimentel and Arica three Fords would be used, each Ford flying about 800 hours per year. (Three Fairchilds would be in reserve).

[fol. 3336] Between Arica and Santiago two new Fords would be used with two Lockheeds and one spare Fairchild in reserve. Between Santiago and Monteideo three Fords, with one Falcon, one Fairchild and one Loening in reserve, would be available for the service, again making a complete multimotored operation between Cristobal and Monteideo.

The estimated loss under this plan would be \$70,100. Additional aircraft required:

- 1 Ford (to replace the San Cristobal)
- 4 Extra Fords.

Plan No. 5. This plan provides for Sikorsky operation between Cristobal and Pimentel, Ford operation between Pimentel and Arica, Kingbird operation between Arica and Santiago, Ford operation between Santiago and Montevideo. Single motored equipment at present owned by the Company being used as spares.

The estimated net profit for the year under this plan would amount to \$145,600. Additional aircraft required:

- 2 Kingbirds
- 3 Fords

.

In connection with the additional aircraft required under the various plans, it has been assumed that we could avail ourselves, by purchase, of two newly rebuilt Panair Fords now located at Buenos Aires, at a very attractive price. The alternative would be to purchase the new Ford with high speed equipment at \$50,000 f.o.b. Detroit, which could be placed in Chile for an additional \$5,000.

I wish also to advise the Directors that, so far, I have been unable to secure the approval of Panair engineering department for the use of the Kingbird through Chile. The latest characteristic sheets for the Kingbird were supplied to me by the Curtiss Company last week and were sent immediately to Mr. Harris. I have not yet had time to receive his criticism and comments.

(s) J. D. MacGREGOR
J. D. MacGregor

[fol. 3337]

SUMMARY—PLAN 1

1) Cristobal/Talara	—3 Sikorskys
2) Talara/Arica	—3 Fords—2 Fairchilds
3) Arica/Santiago	—2 Kingbirds—2 Lockheeds
4) Santiago/Monte- video	—1 Ford —1 Falcon— 3 Fairchilds—1 Loening.

ESTIMATED

	<i>Revenue</i>	<i>Expenses</i>	<i>Profit</i>
*Cristobal/Talara,	\$ 495,500	\$ 414,900	\$ 80,600
Talara/Arica	594,600	507,300	87,300
Arica/Santiago	407,500	218,700	188,800
Santiago/Montevideo	368,100	308,300	59,800
Radio Estimate		120,000	120,000
P.A.A. and Grace bills		100,000	100,000
	<u>\$1,865,700</u>	<u>\$1,669,200</u>	<u>\$196,500</u>

New York, April 8th, 1931.

[fol. 3338]

SUMMARY—PLAN 2

1) Cristobal Pimentel	—3 Sikorskys
2) Pimentel/Santiago	—3 Fords—2 Lockheeds 2 Fairchilds
3) Santiago/Montevideo	—1 Ford —1 Falcon 3 Fairchilds—1 Loening

ESTIMATED

	<i>Revenue</i>	<i>Expenses</i>	<i>Profit</i>
Cristobal/Pimentel	\$ 543,700	\$ 478,600	\$ 85,100
Pimentel/Santiago	936,700	725,000	211,700
Santiago/Monteideo	368,100	308,300	59,800
Radio Estimate	—	120,000	120,000
P.A.A. and Grace bills	—	100,000	100,000
	<u>\$1,868,500</u>	<u>\$1,731,900</u>	<u>\$136,600</u>

New York, April 8th, 1931.

[fol. 3339]

SUMMARY—PLAN 3

- 1) Cristobal/Pimentel —3 Sikorskys
- 2) Pimentel/Santiago —3 Fords—2 Lockheeds
3 Fairchild
- 3) Santiago/Monteideo —3 Fords—1 Falcon
2 Fairchild—1 Loening

ESTIMATED

	<i>Revenue</i>	<i>Expenses</i>	<i>Profit</i>
Cristobal/Pimentel	\$ 563,700	\$ 478,600	\$ 85,100
Pimentel/Santiago	936,700	725,000	211,700
Santiago/Monteideo	413,500	379,300	34,200
Radio Estimate	—	120,000	120,000
P.A.A. and Grace bills	—	100,000	100,000
	<u>\$1,913,900</u>	<u>\$1,802,900</u>	<u>\$111,000</u>

New York, April 8th, 1931.

[fol. 3340]

SUMMARY—PLAN 4

- 1) Cristobal/Pimentel —3 Sikorskys
- 2) Pimentel/Arica —3 Fords—3 Fairchild
- 3) Arica/Santiago —2 Fords—2 Lockheeds
1 Fairchild
- 4) Santiago/Monteideo —3 Fords—1 Falcon
1 Fairchild—1 Loening

ESTIMATED

	<i>Revenue</i>	<i>Expenses</i>	<i>Profit</i>
Cristobal Pimentel	\$ 563,700	\$ 478,600	\$ 85,100
Pimentel/Arica	529,200	463,800	65,400
Arica Santiago	407,500	382,300	25,200
Santiago/Montevideo	413,500	379,300	34,200
Radio Estimate	—	120,000	120,000
P.A.A. and Grace bills	—	100,000	100,000
	<u>\$1,913,900</u>	<u>\$1,924,000</u>	<u>\$ 10,100</u>

New York, April 9th, 1931.

[fol. 3341]

SUMMARY—PLAN 5

- | | |
|------------------------|--------------------------|
| 1) Cristobal/Pimentel | —3 Sikorskys |
| 2) Pimentel/Arica | —3 Fords—3 Fairchilds |
| 3) Arica/Santiago | —2 Kingbirds—2 Lockheeds |
| | 1 Fairchild |
| 4) Santiago/Montevideo | —3 Fords—1 Falcon |
| | 1 Fairchild—1 Loening |

ESTIMATED

	<i>Revenue</i>	<i>Expenses</i>	<i>Profit</i>
Cristobal Pimentel	\$ 563,700	\$ 478,600	\$ 85,100
Pimentel/Arica	529,200	463,800	65,400
Arica/Santiago	407,500	226,600	180,900
Santiago/Montevideo	413,500	379,300	43,200
Radio Estimate	—	120,000	120,000
P.A.A. and Grace Bills	—	100,000	100,000
	<u>\$1,913,900</u>	<u>\$1,768,300</u>	<u>\$145,600</u>

New York, April 9th, 1931

[fol. 32'2]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 345

[Handwritten notation—WFC—think we should (illegible) toward (illegible)—plus using supercharged Ford for Santiago Arica run as well.—(sgd) RHP.]

May 6th, 1931.

The most pressing question to be decided by the Board of Directors of Pan American-Grace Airways, Inc. is that of inauguration of passenger service between Arica and Buenos Aires. The Board has already authorized a service in the Argentine with single motor planes and a service over the Andes in a Ford provided it is equipped with radio. There has been no authorization as to the type of plane to be used in Chile.

Another question to be decided is the installation of radio over all or part of the line.

The representatives of W. R. Grace & Co. on the Board would like to see the following program:

- 1—Purchase of two Kingbirds (if assured that they meet the technical requirements for efficient operation) and the use of these planes between Arica and Santiago. If the Kingbirds are not technically satisfactory, the use of good single motor planes such as the Bellanca or Fairchild for this service.
- 2—The use of a Ford equipped with radio over the Andes.
- 3—The use of Fairchilds between Mendoza and Buenos Aires.
- 4—The purchase of three R.C.A. ground stations, one for Buenaventura, one for Guayaquil and one for Mendoza.
- 5—The purchase of sufficient R.C.A. plane sets for use on the planes in the Northern Division, planes in Chile and the Ford over the Andes.

The representatives of Pan American Airways on the Board favor revocation of the authority for operating single

motor planes between Mendoza and Buenos Aires and the operation of Fords between Arica and Buenos Aires, and the installation of radio throughout the entire system under [fol. 3343] a contract whereby it would be owned and operated by Pan American Airways.

Mr. Trippe's main argument is that we are buying for a three year operation and that if we got, as we should, 5% of the business out of Buenos Aires to the United States we would require Fords to carry the load.

The answer to this is that we have no reason to believe that international business through Chile will be larger than can normally be carried in a Kingbird. It is more economical to run a smaller plane and occasionally turn away passengers than to run a larger plane for the sake of carrying an occasional capacity load. So far as the Argentine is concerned, it would seem to be clear that conditions are perfectly safe for a single motor operation. If it should turn out, say after a year's experience, that the Kingbirds are insufficient for the passenger business in Chile, then they might be used as spares where we are now using Fairchilds, and Fords purchased for this run.

Inasmuch as the views of the two sets of Directors seem irreconcilable on these questions, the following is submitted as a compromise:

- 1—Purchase the two Panair Fords now at Buenos Aires and use them together with two Fords we now own between Pimentel and Santiago.
- 2—Operate Fairchilds in Argentina.
- 3—Purchase R.C.A. radio equipment for installation on the northern and southern divisions of the line as outlined above.

It is assumed that the price that would have to be paid to Panair for the Fords, plus the cost of putting them into condition, would be very little in excess of the cost of the [fol. 3344] Kingbird landed in Chile. The above plan, however, has the disadvantage that the operating expenses of the Ford would probably be in the neighbourhood of 40c

a mile more than the Kingbird. It would have the advantage of relieving Panair of some of their excess equipment, which they were obliged to take over when they took over the Nyrba, and would enable us to ascertain definitely whether we could procure satisfactory passenger business with this type of plane. It has been suggested that once we start in Chile with Fords it would be difficult to stop and that therefore it would be inadvisable to start this service even if we could get second hand planes at a cheaper price. This would not seem necessarily the case, however, as a lack of business would seem ample reason for replacing the Fords when worn out with a smaller plane. In this connection, it should be noted that on our present schedule, and unless the number of stops are increased, the Kingbird can carry two or at the most three passengers after allowing for the weight of the Chilean pilot and his baggage and radio equipment.

If this compromise is made, it is essential that both the radio and the type of equipment be settled at the same time. The use of the Fords in Chile for passenger carrying would require the installation of the radio in the planes while the use of the Kingbird would not.

W.F.C.

[fol. 3345]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 346

PERSONAL No. 73

NEW YORK

May 13, 1931.

Mr. H. R. Harris,
Lima, Peru.

My dear H. R.:

Referring to your personal letter No. 315, I have not yet been able to get the details of the Panair investment per mile of airway, which you think is "incredible". I have, however, received a verbal explanation of what seems to me also a very high cost.

Panair, as you know, has extended very quickly, and, for one reason or another, has been forced to change its route and its flying schedules. This has meant that investments in airports, buildings, and other facilities, which had to be made in order to carry out preliminary plans, were rendered almost entirely useless by a change of route or by a change of schedule. This is readily understandable and is something that we have avoided so far, but for which we have been criticized.

It must be remembered also that Panair's route, in a great number of places, is over territory almost totally destitute of population or economic value. I studied some of their problems before coming with Panagra and I could see where an attempt to put in adequate facilities would be at great cost. I have in mind Cozumel, Yucatan, Honduras, Costa Rica, in all of which places airports had to be literally hewn out of the jungle, and the cost of furnishing materials for the installation of facilities is, and will always be, prohibitive.

I am sorry to say that another Directors' Meeting has come and gone without a definite decision either as to radio or additional flying equipment and ground facilities. I have recommended again the acceptance of the Panair proposal for a guaranteed two-way radio communication. I have prepared figures showing that we could pay \$120,000 a year for radio, pay all the Panair bills for co-operative supervision and Grace agency bills, and still make a large return on our investment, but, so far, have been unable to secure joint action by the Board.

Panair are willing to give me a free hand to work out our problems to the best advantage, but it is not so with the other interested parties. I spent an hour yesterday knocking over straw men with regard to the comparative values of operating Fords against Kingbirds, and with the Chairman of the Curtiss Company as one of the Panair Directors. I have prepared statements showing that the Panair proposal for radio is cheaper than purchasing equipment from R.C.A., or from anybody else, and operating it ourselves. My figures contained no provision for grief. As a matter of fact, I have provided so many figures

that I forget what has been provided, but of one thing I am sure, unless I am permitted to put in facilities that I know are necessary and indispensable, equip our planes with radio, and go after building up a transport system, steps will be taken before long in Washington to curtail our operations and possibly decrease our frequency.

Great pressure is being brought to bear on the Post Office to join up Santos with Buenos Aires on the East coast. The return to the Post Office from mail on the West coast is only about 16%. Some of Panair's routes return between 60% and 70% to the Post Office. Rightly or wrongly, Panair is spending a great deal of money in facilities. That makes a hit with the Post Office, and when they see the West coast without hangars, without airport development, without radio, without passengers stations, they consider we are milking the contract on a ten-year basis. Frankly, I am getting a little disheartened because the longer this fight goes on, the longer it will delay my trip south.

This letter you will please destroy after reading.

With regard to Iquique, I was glad to get the information given in the last paragraph of your letter. I only wish I had had this information before. I can only get such information from you at long range by your constant writing. I write you very fully what I am doing and I should appreciate your giving me currently any information which can assist me.

Do you know that after operating two years I have not on file a single description of the airports at which we land. I do not know the dimensions of the fields, the length of the runways, the nature of the soil, whether approaches are clear or obstructed, or our outlay in development of airports, joint or otherwise. I wrote recently asking for photographs of the fields at which we land. I should never have had to write that letter. I cannot sell our ideas to the present Board of Directors without having a most intimate knowledge of every conceivable feature of our operations. The Grace section of the Directorate reads omnivorously and they expect me to be able to answer the innumerable

questions suggested by their reading. Not only, it seems, must I be prepared to answer questions about our own operations, but also about other items pertaining to the operations of our competitors, past, present and future. They seem to want to know what makes the wheels go round; why the S 41 crashed; what the sea was like; what structural failure caused the sinking of the plane. There is a certain amount of reason for their attitude. Did it ever occur to Robinson at Santiago that Panair had two of these planes on order and that Priester would be interested in receiving unbiased information as to the stability of the plane in the air or on the sea? Why did Robinson discontinue the weekly report that I asked for?

I have received no word from Santiago as to the developments at Cerrillos. I got from Webster whatever he cared to tell me. No photographs of the actual developments at Cerrillos have been sent. I have some photographs of our hangar with a Lockheed in front of it, but none of the other facilities. I understand a casino has recently been erected there. I have never seen it mentioned in letters. Such scraps of information as I get from Santiago come from Dagnino. Will you please take steps to see that this situation is remedied all along the line.

I have wandered along in this letter, and it may be rather disjointed, but as I said above I am a little disheartened, and the only thing that can raise my spirits is to feel that I am getting from my men in the field the whole story all the time. Help me out on this like a good fellow and I will do my part to see that your excellent operating record is recognized by additional facilities.

I was very much disturbed to hear about the state of Mrs. Harris' health. Please keep me currently advised, and if you should decide to send her back to the States this summer, please remember that I am here and shall feel extremely hurt if you do not give me the opportunity to do anything I can for Mrs. Harris and your family.

Very truly yours,

J. D. MacGregor.

JDM/Q

[fol. 3347]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 347

W. R. GRACE & Co.
NEW YORK

May 21st, 1931.

Harold J. Roig, Esq.,
c/o Grace Brothers & Co. Ltd.,
London, England.

Dear Roig:—

Confirming our cable #65 as follows:

"65: your 76 14th to 17th word as ford is in buenos aires our idea is to recondition at Lima price to be paid panair plus estimated cost reconditioning not to exceed 30,000 dollars united states gold"

I enclose herewith Vidal's estimate for the operation of the four Fords. This presents a very different picture. It is based on the present passenger and local mail revenue in Peru and one passenger per plane in Chile.

The only development in the radio situation is that Panair sweetened their proposition to R.C.A. by agreeing to buy about \$50,000 worth of material and R.C.A. has, accordingly, agreed to issue a license for Panair and any company in which it has not less than a 50% interest. I was not entirely surprised at this. It deprives us of a prop but I am hopeful that we will be able to discourage Panair's insistence upon operating our radio and win them over to a plan for installation of radio on only the northern and Chilean sections.

Cogswell and I think that Panagra should have a radio engineer and that his initial work should be the training of flight mechanics and pilots in radio telegraphy and telephone so that we will not have to carry an extra radio operator.

[fol. 3348] Thomas S. McCaleb, who installed Panair's radio system in Mexico and who was let out in the last economy upset, has been to see us. The R.C.A. people think very highly of him and Boshke writes me from Mexico City that his late chief there speaks very highly of him. To test his quality I have asked him to make for Grace a report on the various radio telegraph, telephone, beam and beacon systems now actually in use. I thought we could afford to spend a little money to get more specific information in hand on this important and expensive subject.

Merino arrived here on Monday and MacGregor organized in his honor a dinner at the Hangar followed by a party at the Hollywood. Valverde attended and altogether it was a great success. Merino apparently had a good time and was most cordial. He is leaving for England about June 3rd. I hope and suppose you will cross him on the ocean.

At Washington there is no further development since my telephone conversation with you. Glover told me over the telephone today there had been no new development since Trippe was told that the extension to Buenos Aires would require a cut in his existing East Coast \$2.00 rate. He is, characteristically, still at work, but my advice is that the Post Office will not make us cancel one trip south of Santiago. I fear, however, that the \$1.60 rate on the second trip will stick, although the Postmaster General still seems [fol. 3349] somewhat openminded on the subject. White told me privately that it was his understanding that the Postmaster General had made up his mind. I enclose a clipping from this morning's paper which shows that the tide is strongly against us in this respect.

Faithfully yours,

/s/ R. H. PARSONS

encl.

E

[fol. 3350]

COPY

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 348

W. R. Grace & Co.,
New York

Robert H. Patchin

May 27th, 1931.

J. T. Trippe, Esq., President,
Pan American Airways, Inc.,
122 East 42nd Street,
New York City.

Dear Mr. Trippe:

It is our understanding that one of the Fords has now been equipped with superchargers and we accordingly consider that we should start passenger service south of Arica as soon as possible. We are advised that the operation of a supercharged Ford is not necessarily limited to the Mendoza Santiago portion of the route and we therefore suggest that Pan American Grace Airways purchase one Pan American Airways Ford, now at Buenos Aires, provided it can be obtained at a reasonable price, and carry on the operation between Pimentel and Mendoza with four Fords.

As Pan American Grace Airways is not permitted, however, to carry passengers in Chile in these planes unless they are radio-equipped, it is essential that arrangements first be made for the purchase of four plane sets for use thereon. It is evident from a careful study of the proposal of Pan American Airways to install and operate a system of radio communication over the lines of Pan American Grace Airways that the practical working out of such an arrangement would be most unsatisfactory and difficult and, accordingly, we feel that Pan American Grace Airways should operate its own radio system. Moreover, it is apparent that wherever possible it would be of advantage, from every consideration of economy and efficiency, to use combined telegraph and telephone sets. The operating conditions

between Mendoza and Santiago appear particularly to require radio telephone as an auxiliary to telegraph. We suggest, therefore, that Pan American Grace Airways purchase and ship immediately four combined telegraph telephone plane sets in order that we may start a passenger service in Chile without delay.

As we are strongly of the opinion that the radio system should be gradually developed by starting in places where it is most needed and later extending to the rest of the line as and when found necessary, and with equipment found by experience to be most effective, we suggest that, in addition to purchase of these four sets, Pan American Grace Airways proceed as follows:

1. Engage the services of a competent radio superintendent to install, organize and take charge of the service. One of the duties of such superintendent should be to arrange instruction of the pilots and flight mechanics in the operation of radio telegraph and telephone so that the Company can ultimately dispense with a separate radio plane operator, thus saving both salary expense and pay load space.

[fol. 3351]

2. Obtain the necessary permit from the Argentine Government and purchase and install a telegraph telephone ground set at Mendoza.
3. Obtain amplification of Pan American Grace Airways radio rights in Ecuador, if this should be considered necessary.
4. Purchase a new telegraph ground set capable of being economically amplified for telephone and install the same at Santa Elena or Guayaquil.
5. Purchase three radio plane sets for use on the northern division.
6. After the installation of the ground set in Ecuador, if the needs of the service appear to require it, purchase a similar ground station for installation at Buenaventura.

Mr. Cogswell and I should be pleased to discuss the foregoing with you at your convenience.

Very truly yours,

(Signed) R. H. PATCHIN.

cc Mr. MacGregor

[fol. 3352]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 349

May
29
1931

Mr. Robert H. Patchin,
W. R. Grace & Co.,
7 Hanover Square,
New York, N. Y.

Dear Mr. Patchin:

Receipt is acknowledged of your letter under date of May 27th regarding the proposed inauguration of passenger service by Pan American-Grace Airways in Chile, and referring to the matter of installing a communication system on the Pan Grace Lines.

I note that you have forwarded copy of your letter to Mr. MacGregor, although the original was addressed to me as President of Pan American Airways, and presumably as an individual Director of Pan American-Grace Airways.

My personal opinion, as well as that of Messrs. Hoyt and Whitney, on the advisability of the installation by Pan American-Grace, without further delay, of an adequate communication system over its entire line, and its inauguration of passenger service throughout its entire route in multi-engined planes as soon as possible, was outlined in detail in letter dated March 17th, 1931, addressed to the Board of Directors of Pan American-Grace Airways.

In order to fully cooperate in the early and efficient carrying out of this plan, Pan American Airways has sub-

mitted, on several occasions, proposals in the form of draft contracts, to Pan American Grace Airways, for the installation and operation by Pan American Airways of the requisite communication system. It was my understanding that the General Manager of Pan American Grace Airways stated to the Board of Directors that in his opinion the acceptance of the proposal of Pan American Airways would be not only the most efficient, but the cheapest method of providing Pan American Grace Airways with an adequate communication system, but up to the present time the Directors have not approved or otherwise acted on the several proposals submitted, including that of Pan American Airways.

It would seem that the points raised in your letter as to a detailed method of procedure, are ones upon which the Board of Directors of Pan American Grace Airways should receive views and recommendations of the General Manager of that Company, who I understand has already made a careful study and analysis of the questions of efficiency [fol. 3353] and economy involved.

There is a Pan American Grace board meeting scheduled for next Monday, and while the matter will unquestionably come before the meeting, I will be glad, if you and Mr. Cogswell so desire, to discuss the matter with you both informally, at your convenience, prior to the meeting.

Yours very truly,

J. T. TRIPPE.

JTT:B

cc: J. D. MacGregor

[fol. 3354]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 350

October 8, 1931

Honorable Chase C. Gove

Deputy Second Assistant Postmaster General

Post Office Department

Washington, D. C.

My dear Mr. Gove:

At our conference several days ago, you asked us to submit a letter outlining the several recently proposed changes on foreign air mail service.

The extensions and changes, four in number, are as follow:

1. An extension of route FAM ± 10 from Santos, Brazil, to Buenos Aires, Argentina, effective with the southbound trip leaving Paramaribo November 5, and with the northbound trip leaving Buenos Aires November 2. Effective November 1, 1931, the sum of 20c per mile would be waived on the contract rate of FAM Contract ± 10 .

A formal waiver to this effect, duly executed by us, has been forwarded you today under separate cover.

2. Effective December 1, Tela to be omitted as a port of call on FAM ± 5 , and Merida, Yucatan, and Puerto Barrios, Guatemala, to be included on this route. Service between Miami and Havana, and also between Merida and San Salvador, on this route to be reduced from two round trips per week to one round trip per week.

It is believed that the elimination of Tela and the inclusion of Puerto Barrios and Merida on this route, together with a reduction in service on certain sectors thereof, as outlined above, will not only result in the estimated annual saving of \$129,584, but will, at the same time, considerably enhance the trade and postal value of the route in question.

[fol. 3355] The reduction on the through service to San Salvador to once a week should not impair the present

postal service to Central America, inasmuch as the schedules hereafter proposed, also to become effective on December 1, will permit of one through trip per week to Central America via Kingston. Scheduled mail arrivals to points between the Canal Zone and Salvador under this schedule would be Sundays and Tuesdays; outgoing mail schedules would be Saturdays and Wednesdays. All flights in both directions would be uniform in that from two and a half to three days would be required between Florida and points in Central America, whether scheduled via Kingston or via Merida.

The reduction in service between Merida and Salvador to one trip per week should not impair the value of the foreign air mail service over route 25, inasmuch as British Honduras would be the only country reduced under the proposed program from a twice a week to a once a week schedule. The mail actually carried to and from Belize now averages but 3.2 pounds per trip. Trade between British Honduras and the United States is relatively small compared to other countries served by the United States foreign air mail lines.

The reduction in service between Salvador and Puerto Barrios from twice to once a week should result in improved service on the Brownsville-Canal Zone route, inasmuch as operating conditions across the Central American mountains are often bad and frequent delays are apt to occur, necessitating holding the through ships between Brownsville and the Canal Zone for the connection at Salvador.

The schedules proposed hereafter will also eliminate Cozumel Island as a port of call, considerably improving the trade value of this route, inasmuch as passengers have sometimes been embarrassed through having to remain overnight at that point, where no suitable accommodations are available. The possibilities of delays in the through service on account of connections at Salvador will be greatly reduced by the shortening of the day's flight that crosses the mountain section. This has been reduced from the Havana-Salvador distance to Merida-Salvador, which makes it possible to cross the mountains earlier in the

afternoon than is now the case. Safety of operation on this section of the route, considered one of the most dangerous on our lines, would also be improved.

The proposed second scheduled trip per week between [fol. 3356] Havana and Merida would connect at Havana with FAM ≈ 4 , thereby providing twice a week service between Florida and Yucatan, an important trade route, inasmuch as a substantial business is carried on between points in Florida and Yucatan and Mexico. Both of these scheduled trips would make direct connections at Merida with services operated by our Mexican affiliate, Compañia Mexicana de Aviación, which serves the most important cities in Yucatan and eastern Mexico. Two day service between Florida and Mexico City and intermediate points would thus be available.

The parallel service on FAM ≈ 5 between Miami and Havana has been reduced under the proposed schedule from twice to once a week. The once a week service would be required in order to provide proper maintenance at our Miami base for aircraft serving this route. If we were to overhaul this equipment at Havana, considerable additional expense would be incurred, and work would be performed in a foreign country which under the proposed plan would be done in the continental United States.

If at least one trip per week between Salvador and Florida did not originate and end in Florida, the section between Miami and Havana would develop into a "bottle-neck". This is particularly the case since the second trip per week between Havana and Merida, under the proposed schedule, connects with FAM ≈ 4 at Havana. It was planned on this trip to route any passengers desiring transportation between Cuba and Mexico only, including American travellers wishing to stop over in Havana. This plan leaves the entire capacity of the second trip to Yucatan and Central America available for passengers en route to and from the United States.

3. It is proposed, as of December 1, to increase service between Barranquilla and Maracaibo from one round trip per week to two round trips per week. This increase in

service is desirable not only on account of the extra heavy air mail service to Venezuela, the revenue from which to the United States Government is now estimated as \$1,250 per month, but also because of a very substantial air passenger service which has developed between the United States and Venezuela, and between the Canal Zone and Venezuela. We are planning to put out new four engine flying boats into service between Florida and Barranquilla about December 1. The additional capacity thus made available between that point and Florida will provide adequately for the additional passengers coming from [fol. 3357] Venezuela as a result of the two services per week between Barranquilla and Maracaibo.

4. We are submitting herewith the new schedule which we propose become effective December 1. This schedule is a great improvement over the present schedules of the system. All points served by the through east coast service, including Rio, Montevideo and Buenos Aires, and all intermediate points, would receive at least one day faster mail service from the United States and two days faster service as soon as proper connection is made by the Domestic Air Mail Service at Miami.

The "bottle-neck" between Porto Rico and Miami, now existing on the East Coast Service as a result of the limited capacity of the land type Fokker tri-motors now in service, would be eliminated, inasmuch as the new schedule contemplates flying boat operation on the through trip to Brazil between Florida and Porto Rico. The flying boats will have a capacity on this route at least double that of the present Fokker tri-motor land types, and adequate to take care of the very considerable through traffic already developed to points south of Porto Rico.

You will note that the schedule as herein enclosed also gives effect to the various improvements suggested by yourself and Mr. Grayson during our recent conference. The southbound Brownsville scheduled departures have been changed to Mondays and Fridays; the northbound arrivals to Sundays and Wednesdays. The scheduled arrivals and departures in Central America are much better

spaced than the schedule submitted at the conference above referred to. Four separate receipts and dispatches between the Canal Zone and the United States are provided.

The new schedule herein proposed affords direct connections, both north and southbound, at Trinidad. Direct connections are also made twice a week on the Barranquilla-Maracaibo service with the Barranquilla-Miami trans Caribbean line. Continuous service across the north coast between Cristobal and Maracaibo is also available, and two day service is afforded between the Canal Zone and Trinidad, direct connections being made at Maracaibo with the once a week mail service scheduled between Maracaibo and Trinidad.

Southbound service at Miami is scheduled for 7:30 am. (fol. 3358) the latest possible departure time permitting second day arrivals at Trinidad, necessary if the extra day is to be eliminated on the entire east coast service. The southbound departure on the Miami-Kingston-Barranquilla route has been set at 9:30 am, the latest practicable time to leave Miami, taking into consideration the scheduled stop at Cienfuegos and the overnight stop at Kingston. The scheduled arrival at Barranquilla at noon on the second day, will permit of arrival on schedule the second night, not only at Maracaibo, Venezuela, but also at Cristobal, Canal Zone, and all important points in the interior of Colombia.

As soon as the schedule of the connecting domestic air service between New York and Miami is modified so as to afford a reasonably close connection at the latter point, New York dispatches for Buenos Aires would be made on Saturdays and Tuesdays, arriving at Buenos Aires on Saturdays and Tuesdays. The east coast mails would leave New York Thursday evening, arriving at Rio de Janeiro Wednesday night and at Buenos Aires Friday afternoon.

The northbound departures from Buenos Aires would be Saturdays, Wednesdays and Thursdays, arriving at New York early in the morning on Saturdays, Wednes-

days and Fridays. The northbound scheduled departure from Rio de Janeiro would be Saturday morning, affording the best possible service to that city with the frequency limited to once per week.

Awaiting your action in this connection, we remain,

Respectfully,

PAN AMERICAN AIRWAYS, INC.

J. T. Tripp,
President.

JTT:EH

[fol. 3359]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 351

PERSONAL 680

ERNST EILERS

NEW YORK,

November 3, 1932.

Mr. H. R. Harris,
LIMA.

My dear H. R.:

I note Mr. Kirkland's letter to you of 725 SAGO of October 24th with reference to Ernst Eilers.

I do not know what Mr. Kirkland has in mind when he says "should plans for Guayaquil mature, we would undoubtedly have a small staff of our own at that point", and by inference, one member of the staff would be a businessman, a position which he thinks Eilers could fill. This is not at all in line with my own ideas and would certainly be opposed by the Grace Directors.

With the exception of Divisional Headquarters, the business end of our operations is run by our agents, and I wish

you would warn Kirkland that letters of this kind will undoubtedly raise the question in the minds of the Grace people as to whether, in Guayaquil also, we intend to break away from our basic agreements and maintain our own business personnel in addition to the work performed for us by Grace Agents.

I do not know whether you have ever seen a copy of the original letter outlining the set-up for Pan American Airways, Inc. and Grace & Co. For your very confidential information, and to be kept in your private files, I hand you a copy of Mr. Cogswell's letter to the Aviation Corporation of the Americas, dated August 31, 1928. I draw [fol. 3360] your attention to the first paragraph of the second page, and especially to the statement that on the West Coast of South America Grace & Co. will be the agents of the Company, on a reasonable compensation basis, for a period to continue as long as the life of the transportation contracts are in effect. This is the broad basis of the understanding and there is nothing in the letter which would permit us to shop around for agents or appoint other agents where Grace & Co. has an agency, even although other Companies or individuals might offer us better terms than Grace would. The whole argument here has been over the words "reasonable compensation basis".

It is, therefore, not in order to take steps that might be construed as modifying the original agreement, unless Grace & Co. signify their entire conformity with such a plan.

J. D. MacGregor.

JDM:Q
Enc.

[fol. 3361]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 352

Cable Address "PANAGRA"

Pan American-Grace Airways, Inc.
122 East 42nd Street New York N. Y.

Letter No. PERSONAL 1251

ORIGINAL AIR MAIL LETTER

Copy follows by second airmail

Re your letter No.

Subject: GRACE LINE MEETING

LIMA, February 17, 1933.

Mr. J. D. MacGregor, New York.

Dear Mac,

Yesterday I gave a luncheon for the Grace Line people now here, that is, Adams from the New York office, Rebstock from Cristobal, Marshall from Buenaventura, Holguin from Guayaquil, Bush from Lima, Heavey from Valparaiso and Redshaw from Lima. I had the SAGIO organization, consisting of Penrod and Litchfield from Traffic, Angus from Radio, Farris and French from Operations, Jardine from P.A.C. Operations, Matallana from P.A.C. Traffic, Thömmen from P.A.C. and myself. The luncheon seemed to be satisfactory, and the only unfortunate part was the fact that Rebstock was too ill to attend, his place being taken by Mr. Adams' secretary, Mr. Livingston. Incidentally, Mr. Adams gave me to understand that Rebstock is being retired from the Grace Co. in the near future on account of his health.

Adams told me that they were having a number of discussions in their meetings here about the position which a Grace agency should take with regard to Panagra. They have now come to the conclusion that they will charge a minimum of \$10 for every unaccompanied baggage ship

ment, in place of their previous charge of 1¢ gold per lb. weight, inasmuch as they view this unaccompanied baggage as being handled for Panagra passengers at a very low income to the Grace people, who are, of course, responsible for the baggage while it is in their possession. I can't say that I blame the Grace Line people for taking this stand, since they have a certain amount of justification in the lack of income to them in regard to a matter which is of great importance to passengers via Panagra.

Adams also told me that he felt our rates were now at too low a figure compared to the steamer rates; in other words that we were not on a reasonably competitive basis in that our operating costs should be much higher than steamer operating costs, and that consequently our tariffs ought to be much higher. I did not discuss this point with him, knowing that when the time came we could make as much or little of the economies as we cared to, depending upon the point to be gained.

I have arranged with Adams to allow me to talk to his group next Tuesday morning, and have also arranged to show them the airport at Las Palmas Tuesday afternoon; inasmuch as Marshall is leaving for Buenaventura by airplane Tuesday morning I took him out there yesterday afternoon together with Heavey. Las Palmas is not very large, but it is able to impress a visitor, properly shown around, with our ability to accomplish really important results in a small amount of space and with a minimum of expensive equipment. I believe that these people will be really impressed with what Panagra is and what it means, as a result of our Tuesday meeting.

(signed) H. R. HARRIS

Harold R. Harris

HRH/FL

[fol. 3362]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 353

PERSONAL 1393

NEW EQUIPMENT

New York,

October 19, 1933.

Mr. H. R. Harris,
LAMA.

My dear H. R.:

I had a long discussion with Mr. Trippe on the question of new equipment, and received the benefit of his views in light of the various quotations submitted by the Consolidated, Sikorsky and Douglas for the construction of specially fabricated amphibions. I think I told you in a previous letter that the quotations received were subject to an upward revision if the manufacturers incurred additional costs through the operation of the NRA.

Quotations received from Sikorsky were, in the main, lower than those received from the other competing Companies, but the entire engineering expense would have to be distributed over the five or six amphibions we could possibly use in the System, which would mean that each unit of a sixteen-passenger amphibion would cost, in the neighborhood of \$120,000. Further, although the Sikorsky proposition is for a sixteen passenger plane, Mr. Trippe feels, and I think I agree with him, that the increase in mail and express service, together with the fact that undoubtedly before long we may have to increase the free baggage allowance to passengers, will have the effect of making this plane only a fourteen passenger plane, and to pay \$8,000 a seat would seem altogether prohibitive.

[fol. 3363] On the other hand, Panair has, as you know, a firm contract with Sikorsky for the construction of several Clippers. The Clipper is a 32 passenger plane, and if, on the same theory of an increase in express, mail, baggage allowance, etc., we consider it a 26 passenger plane, the

price per passenger seat would be very appreciably less than the amphibion.

Mr. Trippe, therefore, thinks that it would be economically better for Panagra to charter a Clipper for the service between Cristobal and Guayaquil than to invest a minimum of \$250,000 in building two planes. You, of course, realize there is no market for amphibions in the States, at least, of the size and performance we require for our operations. Mr. Trippe's suggestion, therefore, is that it would be more economical to start a Clipper from Miami and, if necessary, changing crews at Cristobal, fly it all the way to Guayaquil.

Naturally, this would entail an investment at Guayaquil, but you and I have already agreed that such an investment must be made. There would, of course, be no trouble in landing a boat of the Clipper size in the river, and I think it possible that we may be able to arrange a schedule which would permit the boat to be in the water only overnight, which would avoid the necessity of the tremendously large ramp with the additional handling expense involved in taking her out of the water.

I talked over this scheme with Kirkland who did not seem at all amazed at the size of the boat we might consider [fol. 3364] running in the Northern Division. He feels that we will be pleasantly surprised at the number of passengers we will have, especially if we can get "cabotaje" rights at Tumbaco. Another thing to be taken into account is the fact that Cristobal Guayaquil is a bottle-neck not only for our passengers, but also for our personnel, of which the latter there seems to be a constant flow. If we are unable to afford our employees' accommodations on the plane, we would necessarily have to pay their fare by steamer, and if the steamer fare and other expenses were credited to the operation of the Clipper, the size of the plane would not seem so abnormally in excess of our present needs.

It may be that, in connection with the Ecuadorian Government, we shall have to arrange for some sort of slip to insure us a place to taxi to the bank of the river. There are other features which will undoubtedly occur to you.

but, in general, I am not horrified at Mr. Trippe's suggestion, nor do I think you will be. The Directors, I believe, will be willing to place a reasonably large investment at Guayaquil as it is inevitable that we must have the best facilities if we are to secure the passenger traffic, upon the revenue of which we shall have so largely to depend if our subsidy is curtailed, or taken away.

In further connection with this matter, Mr. Trippe explains that it will be almost impossible for Panair to contemplate, at present, a less than two-day flying time between Miami and Cristobal, even with the Clipper cruising 150 miles air speed, which would be more likely 135 [fol. 3365] miles ground speed. He explains that E.A.T., during especially the winter season, arrives at Miami several hours late, over 75% of the time, and that train connections are not possible for passengers before 7:30 in the morning, and that, therefore, unless the planes are to leave Miami practically empty as far as close airmail and passenger connections are concerned, the planes cannot leave Miami until 9:30 in the morning. In addition, the Post Office is now insisting upon a stop at Havana so as to economize on the shuttle airmail service. This will make it impossible for Panair planes to get further than Kingston the first night out, and to Cristobal the second night. Even though it were possible to reach Cristobal in the early afternoon, it would not benefit Panagra service because the nearest place we could take our passengers to would be Buenaventura, and our Guayaquil passengers would again have to take two days to get to their destination.

In the light of the above, it would appear that, after all, Panagra would have to bear the brunt of any stepping up of the schedule, but, as this matter would seem now to be crystalizing, I think it would be advisable for you to prepare for me, and airmail to me as soon as possible, a Panagra schedule between Cristobal and Montevideo, taking the Clipper speed to Guayaquil, making that the first overnight stop; then taking a land plane of a cruising speed of say 175 miles an hour, between Guayaquil and Santiago; then the Fords over the Hump and into Buenos Aires and Montevideo. It may be that in making this schedule you might

find it possible to run from Guayaquil to Arica the second [fol. 3366] day, and from Arica to Mendoza the third day, which, in order to make a three-day schedule between Cristobal and Buenos Aires would entail night flying with mail and passengers between Mendoza and Montevideo. I think you would consider the night flying in the Argentine a fairly safe operation, if the necessary airport lighting were arranged and night flying instruments available.

The whole matter is very interesting and I should appreciate your advising me your ideas at the earliest opportunity.

Incidentally, I am still shooting for November 11th to start my trip south.

J. D. MacGregor.

JDM/Q

[fol. 3367]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 354

December 20, 1933

Memorandum to Mr. J. D. MacGregor

Vice President & General Manager

SIKORSKY S-38 vs S-42

The attached statement shows the estimated direct operating costs of our present S-38 Sikorskys and of the proposed S-42 Sikorsky Clippers.

It will be seen that the extra cost of operation of the S-42 appears to be in the neighborhood of \$120,000. per annum. The available pay-load of this ship is practically 7,000 pounds as against the 4,200-pound maximum available pay-load of our present S-38 Sikorsky.

As between Cristobal and Guayaquil we receive an average of approximately 9c per passenger mile it is evident that every extra passenger we carry all the way between those two points throughout the year would yield in the neighborhood of \$20,000. In other words, six passengers carried throughout the Division on each trip over and above

the number of passengers carried at present would just about cover the larger cost of operations of the S-42 Sikorsky Clipper.

[fol. 3368] As a matter of fact, this new plane having a capacity of 26 passengers as against a maximum of five in our present Sikorskys, it is certain that we would secure additional through passengers to and from Lima, Santiago, and Buenos Aires. This extra revenue could likewise be applied against the extra cost of operating the larger plane, particularly in view of the fact that they fly at the "bottle-neck" of our line.

G. VIDAL

GV:G

ESTIMATED DIRECT OPERATING COSTS OF AIRCRAFTS E-28 (at present in use) AND E-42 (1930)Scheduled Mileage Cristobal/Manzanillo - 1,000 miles per trip & 217,128 miles per annum (Twice-A-Week Operation)E-28 100 m.p.h. or 1,271 hours per annum - E-42 141 m.p.h. or 1,601 hours per annum

	<u>E-28</u>	<u>E-42</u>
Pilots (4)	Average \$6,000 a year	3 pilots at average \$6,000 a year
Co-Pilots/flight mechanics		1 at average 4,000 a year
Radio operators	3 at average \$2,500 a yr. ea.	1 at average 1,500 a year
Stewards		1 at average 900 a year
Insurance flying crew	at 25.00 per \$100 of payroll	at 25.00 per \$100. of payroll
Groceries	2,271 hours x 50 gal. x \$1 ets.	1611 hrs. x 148 gal. x 13¢ (ex. quality)
Oil	1,271 hours x 2 gal. x \$1 ets.	1611 hrs. x 8 gal. x 51¢
Maintenance	as at present	50% higher than present costs
Major overhauls	3 x \$10,000 each	2 x \$10,000 each
Obsolescence - Aircraft (3-year life)	3 x 40,000 each	4-year life - 2 x \$110,000 each
- Engines (3-year life)	3 x 8,000 each	2-year life - 12 x 8,000 each
- Radio sets 1-yr life	3 x 1,800 each	2-year life - 2 x 1,500 each
Self-insurance against loss of plane	50% cost 1 plane with engine	Double E-28
P.W. and P.D. insurance	.0015 a mile	No change
Passenger liability insurance (.00165 per pas./mile)	on basis 3 passengers per trip	On basis 10 passengers per trip
Interest on investment	4% on \$75,000	4% on \$150,000
	<u>\$104,700.</u>	<u>\$125,400.</u>
	<u>Operating Cost</u>	<u>Operating Cost</u>
per flying/mile	.20	\$ 1.45
per flying/hour	90.10	101.00
per ton/mile of available payload	1.65	.45
per seat/mile available	.10	.05
<u>Estimated Available Payload</u>	<u>Estimated Available Payload</u>	<u>Estimated Available Payload</u>
3 passengers & baggage x 200 lbs.	1,200 lbs.	20 passengers x 175 lbs. each
Mail and Express	200	baggage x 80 lbs. each
	<u>1,400 lbs.</u>	Mail and Express
		<u>6,945 lbs.</u>
<u>Estimated Cost of Equipment</u>	<u>Estimated Cost of Equipment</u>	<u>Estimated Cost of Equipment</u>
Aircraft - each	\$50,000.	Aircraft - each
Engines - 2 x \$25,000. each	15,000.	Engines - 4 x \$6,000. each
	<u>\$65,000.</u>	
2 planes required	\$130,000.	2 planes required
3 spare engines x \$5,000. each	15,000.	4 spare engines x \$6,000. each
	<u>\$145,000.</u>	
		<u>\$118,000.</u>
		<u>\$140,000.</u>
		<u>\$280,000.</u>
		<u>\$424,000.</u>

[fol. 3370]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 355

(Letterhead of Pan American-Grace Airways, Inc.,
New York, N. Y.)

LETTER No. 342

SUBJECT VARIOUS

NEW YORK

~~FEBRUARY~~ 5, 1935

April

Mr. J. D. MacGregor
CRISTOBAL

BUREAU OF AIR COMMERCE

Further to my letter #338, George Rihl tells me that Mr. Trippe is endeavoring to have the conference scheduled to take place April 8 postponed for a few weeks in view of pressure of other business. It is proposed to have Andre Priester attend this conference, if necessary representing Panair and Panagra as an operating man.

We wrote to Director Vidal advising that you were at present in South America and that a copy of his communication has been forwarded to you.

EXTENSION TO BOLIVIA

Grace has approved the recommendations contained in your letter of March 25 with regard to the Taena/La Paz service. Their only comments were of a relatively minor nature and pertain to the following two points:

- 1—They suggest that during the first few trips we arrange to have a portable radio set at the La Paz airport (similar to that installed at Cuzco or at the Cotabambas mine during the freight work) with a view to making doubly certain that the planes flying between

[fol. 3371] Taena and La Paz will be able to establish radio communication with La Paz. While the service being rendered by Cia. Boliviana de Radio may be very dependable, it is felt that this extra precaution should be taken until tests have taken place in actual operation.

- 2—On Page 2 of your report dated March 25, the recommendation is made that the fare between Taena and La Paz be established at \$30. U. S. Currency or its equivalent in national currency *at the official rate of exchange*, the latter being accepted only from bonafide residents in Bolivia. It is assumed that when you refer to "official rate of exchange" you are speaking of the export rate which stands at about 17 Bolivianos per dollar. This assumption seems to be confirmed by other remarks subsequently made in the report. It is, of course, obvious that we could not afford to collect dollar rates in Bolivianos at the rate of 4 to 1, which appears to be the official rate established by the Banco Central in La Paz.

George Rihl is having Andre Priester study the operating angles of the report submitted. From a business standpoint, George Rihl has expressed the following views:

- 1—That if Cia. Boliviana de Radio accepts messages from the general public for transmission by radio, it would probably be a mistake for Panagra to make a deal with this station because that would establish a precedent which both Panagra and Panair have been trying to avoid during the last few years. All commercial radio companies established throughout the System would naturally want to handle our radio work, but the policy so far has been not to utilize their services but rather to install our own radio stations.

I discussed this point with Mr. Cogswell and after making inquiries he advises that the Cia. Boliviana de Radio seems to be owned about as follows:

Grace	25%
Government	10%
Banco Central	10%
Others	55%
<hr/>	
Total	100%
<hr/>	

[fol. 3372] Mr. Cogswell also advises that practically all of the income of the Company during 1934 was derived from broadcasts and from the sale of radio materials and that only a negligible part of the income originated in messages transmitted for the public. I have not as yet had an opportunity again to discuss this point with George Rihl and I do not know whether he still feels that we ought to establish our own station at La Paz regardless of the extra cost, in order not to create a bad precedent.

- 2—George Rihl thinks that the weight allowance should not be increased from 15 to 20 kilos as such action would also establish an undesirable precedent. It seems that only 15 kilos are allowed on the flights between Girardot and Bogota and between Tampico and Mexico City.
- 3—The depreciation on the automobile to be stationed at Tacna appears to have been charged entirely to the operation of the Tacna/La Paz service despite the fact that unquestionably the automobile will also be used in connection with other flights in and out of Tacna. This, however, is a minor point.

I expect to be able to cable you definitely with regard to the starting date of this service before this letter reaches you.

From your copy of our letter to SAGO 6296, you have learned that the Direction Finder supposedly shipped from Miami to Callao via New York around the middle of February was not forwarded and that it is not expected to be ready before the end of April and also that the additional

Direction Finder apparently will not be available much before June 1. I am assuming that if the Tacna/La Paz service is inaugurated on or about May 1, it will be possible to loan a Direction Finder to the Tacna radio station pending receipt of the ones now on order.

[fol. 3373] - PARTY OF FRENCHMEN

I am attaching herewith copy of my letter to SAGO 6306

sago

(originally numbered 6280). I cabled Panagra yesterday inquiring as to whether an S-40 could in their opinion make a round trip between Cristobal and Guayaquil, taking into account available operating facilities, and also as to whether Panagra could handle the French party in its own aircraft between Guayaquil and Buenos Aires.

A reply from Pansago received today indicates that the S-40 could make the trip from an operating viewpoint. George Rihl has intimated that Panair is planning to carry this party between Barranquilla and Cristobal in an S-40 and that, if we want the S-40 to continue to Guayaquil, he could make a charter rate of 1.80 per mile which would include crew's salaries and expenses and fuel, we to pay landing charges and other incidental expenses. It is understood that the plane would be manned by a regular Panair crew and that in the event of mishap the damage to the aircraft and the liability in connection with the crew would be for Panair's account. The passengers would be covered by our own liability policy.

As this proposed charter figure was given to me only this morning I have not as yet had time to study it. I want to point out that, as the passenger fare between Cristobal and [fol. 3374] Guayaquil is \$110., the twenty Frenchmen would pay \$2200. between these two points. We would in addition carry whatever other passengers might be available for the southbound and northbound trips. Another feature which should be taken into account is the possibility that unless we carry this party by air between Cristobal and Guayaquil they may not want to travel by air between Guayaquil and Buenos Aires.

In reply to our second inquiry, Pansago referred us to your letter to Cristobal dated March 20 in which you advised that it seemed ill advised to attempt transportation of 25 persons in one party along our route. I do not know whether, in view of the additional information now available, you are willing to consider this proposition at all.

EQUIPMENT FOR THE NORTHERN DIVISION

Mr. Roig has informed you with regard to the proposed arrangement under which Panagra would own one S-43 and Panair another for the purpose of operating the service between Guayaquil and Cristobal and a point beyond not yet determined on the Panair lines. The Panagra plane would fly right through into Panair territory and the Panair plane would fly into the Panagra territory at a charter rate and under terms and conditions to be agreed upon. It is believed that certain economies would be available to both companies under this plan.

[fol. 3375] In addition to the foregoing, Panagra would immediately charter one or two Commodores from Panair to operate one or both services between Cristobal and Guayaquil commencing at the earliest possible date at a charter rate and under terms and conditions to be agreed upon.

An agreement is now under study covering the Commodores, as well as the S-43 charter. No additional details are available at this time.

STRIKE AND RIOT INSURANCE

In compliance with instructions contained in your letter #174, I am forwarding to Lima short-term Strike and Riots insurance rates to be kept in their files for possible use in emergencies.

/s/ G. VIDAL
G. VIDAL

GV:G

cc HRHarris

[fol. 3376]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 356

(Handwritten material)—(Top)

I have so much that I would like to write about but must leave it until I get on the ship for Chile.

[Handwritten material in margin]

Since dictating this I have your letter about schedule and I am discussing it with Shea. It looks pretty good to me. I thoroughly agree about the purchase of the second S43.

Letter No. 15

(Trip series)

On board "Santa Lucia",
May 5, 1936.

H. J. Roig, Esquire,
New York.

Dear Roig,

PANAGRA—COLOMBIA

Referring to my cable on this subject and your reply, I want to make it quite clear to you that in suggesting that the S-43 should fly overland I do not mean to suggest that any unwise risks should be run but rather that we should make a very cautious approach to the solution of the problem.

I do feel that it is of the most serious importance for us to get Trippe to agree to our going into Cali and that some method should be discovered for putting pressure on him in order to obtain his consent. I rather think that the discussion of putting our ships into Miami north and south-bound or to get a hookup of our own to Panama might conceivably be used as a lever to bring him into line on some of these matters. I am not at all sure that it is a practical thing to stop in Miami and I am not sure, even if we con-

template doing so, whether it suits you to talk about it much until we have a definite plan worked out. On the other hand, I feel that even if you find that it is not practical to do this, the idea might be played up in a way that would frighten him into giving us a better schedule to Panama or allowing us to go into Cali, or both.

I am very glad to learn from your cable that you are getting Allen and Campbell to work on the Colombian idea and I am sure you will also find the means of bringing Trippe into line in one way or another. I will await developments of all this with great interest.

Very truly yours,

/s/ D. S. IGLEHART

[fol. 3377]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 357

Pan American-Grace Airways, Inc.
135 East 42nd Street. New York, N.Y.

PRIVATE Letter No Sago 7420

Subject: REQUEST FOR CAPITAL APPROPRIATION.

LIMA

August 29, 1936

Panagra,
NEW YORK.

Your attention is invited to your letter No. 4445-P of August 10, 1936, to W. R. Grace & Company, Lima, on the subject of "Request for Capital Appropriation." This letter is not sufficiently complete in that it does not cover special cases, or rather, it covers special cases but in a way which is not satisfactory.

A particular instance has just arisen where it has been decided to purchase Kollsman altimeters as standard equip-

ment for our various radio stations throughout the Pan-
 agra line. Under the pending instructions the local Grace
 office is supposed to approve an R.C.A. form to be made out
 for purchase of these altimeters. Mr. Shea, the Grace local
 manager, has failed to approve this R.C.A. form as yet
 due to lack of knowledge of the reason for which these
 altimeters are required. Very obviously Mr. Shea has no
 knowledge of the requirement of these special instruments,
 particularly for use outside of Peru, and in future cases
 of Sago requisitions of this nature no time will be spent
 in trying to explain these matters to the local Grace people,
 but requisitions and R.C.A. forms will be forwarded direct
 to you containing the Sago section head's signature and the
 signature of the undersigned.

It is not often that such global purchases are required,
 and usually, as you know, the present method of handling
 R.C.A. forms has proven to be reasonably satisfactory.

(sgd.) H. R. HARRIS
 H. R. Harris

HRH:KW

cc—Sago comms.

“ Traffic

“ Ops.

“ Maintenance

NYX

2nd airmail

[fol. 3378]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 358

(COPY)

June 30, 1938

Mr. A. Garni
W. R. Grace & Co.
7 Hanover Square
New York City

My dear Mr. Garni:

I regret that I was engaged in a hearing when you called this morning. When I became available this afternoon your office reported that you had gone for the day.

I talked with Mr. Lamiell this morning concerning the proposed second direct air mail schedule between Miami and the Canal Zone. Frankly, this situation does not appear very encouraging.

In order to improve the service on the West Coast south of the Canal Zone we authorized the so-called La Paz "cut-off" several months ago, which entails an annual cost of about \$261,000. In addition, we established a direct schedule from Miami to the Canal Zone, at a cost of about \$228,000 per annum.

Notwithstanding these additional and expensive services there has been very little improvement in the schedules and practically no mail benefit. To authorize another direct service from Miami would cost approximately \$162,000 a year additional; which would be offset to the amount of about \$72,000 if the service now being maintained between the Canal Zone and Barranquilla is abandoned. Even with this offset of \$72,000 a year the Department would be put to an additional expense of around \$90,000 a year.

This, added to the \$261,000 for the La Paz "cut-off" and the \$228,000 for the one direct schedule from Miami to the Canal Zone, would make a total cost of \$579,000 per year.

Unless some substantial benefits are to be obtained through a second direct schedule between Miami and the Canal Zone I doubt whether such an additional service, with the attendant cost, would be justified.

I am leaving tomorrow for a short vacation and I suggest you confer further with Mr. Lamiell concerning possible improvement in the service.

Sincerely yours,

Harlee Branch
Second Assistant
Postmaster General.

[fol. 3379]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 359

January 19, 1939

C. V. Whitney, Esq.,
Hobe Sound,
Florida

Dear Sonny,

I have just received your letter of yesterday.

I have been over the minor changes which Mr. Roig and Mr. Trippe suggested to the memorandum that you and I agreed upon. They seem to be in order and Mr. Roig is taking to Mr. Trippe a clause "5" which I have endeavored to revise, as per attached, in the sense of our telephone discussion. As you indicate, Mr. Roig will take this to Mr. Trippe as my final word in the matter, and I hope that now we may proceed to carry out the arrangement.

As I indicated to you on the telephone, we will consider the memorandum regarding adequate service, which Mr. Roig and Mr. Rihl had tentatively agreed upon, as merely an indication of a general viewpoint and neither will consider that it is to be followed to the letter.

The thing that pleases me in this whole matter is that your mind and my mind have met; that we understand

exactly what we are driving at; and, I feel entirely confident that we will see that all friction is eliminated and that everyone puts his effort to constructive accomplishment, the results of which are bound to be successful.

Yours sincerely,

(sgd) D. S. IGLEHART

[fol. 3380] 5. Any disputes arising under this general plan and every phase thereof, including interpretation of "adequate direct connecting service" referred to in paragraph "2" above, which cannot be settled by the Board of Panagra, shall be determined by Messrs. D. S. Iglehart and C. V. Whitney. If they are unable to agree regarding interpretation of "adequate direct connecting service", Panagra may apply for the certificate referred to in paragraph "2" on the conditions therein stated.

(*Pencil note:* Arbitration clause submitted pursuant to Mr. Whitney's letter of January 17, 1938.)

[fol. 3381]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 360

PAN-GRACE

Edited by Mr. Rihl.
noon, Jan. 31, 1939. ma

1. One of the Grace directors of Panagra (who shall also be a director of Grace) will be elected President of Panagra and placed in responsible charge of the management of the company. If at any time the Company's affairs are not being conducted to Pan American's reasonable satisfaction, then the President will resign.
2. Pan American will inaugurate on or before April 1, 1939, a second direct trip between Miami and Cristobal, and will maintain an adequate connecting service between Miami, or some other U. S. port agreed upon, and Cristobal connecting with Panagra's through sched-

ules. If at any time Pan American's connecting service between Miami, or some other U. S. port agreed upon, and Cristobal, is not operated to Grace's reasonable satisfaction, then Pan American will cause its directors on the Board of Panagra to take such action as will permit Panagra's applying to the C.A.A. for a certificate to operate this connecting service, provided that Pan American shall not be in any way precluded from maintaining before the C.A.A. that its service is satisfactory and that Panagra's application should be denied.

3. The foregoing is to be brought informally to the attention of the C.A.A. for any suggestions which it may desire to make.
4. It is agreeable to Grace that Pan American continue to receive the share of service fees it is now receiving provided Pan American gives satisfactory service.
- 4a. Grace and Pan American agree that Pan American-Grace shall continue to pay in the same proportion service fees as now being paid, provided that the services rendered by the respective parties are satisfactory to Pan American-Grace.

(Note) Mr. Roig feels that #4a would be acceptable if #4 as originally written is not considered as expressing the intention of both partners, i.e. both partners are expected to give all service and cooperation possible commensurate with their respective organizations.

5. Any disputes arising under this general plan and every phase thereof, including interpretations of "adequate direct connecting service" referred to in Paragraph 2 above, which cannot be settled by the Board of Panagra, shall be determined by Messrs. D. S. Iglehart, President, W. R. Grace Co., and C. V. Whitney, Chairman, Pan American Airways Corp. If they are unable to agree regarding interpretations of "adequate direct connecting service" they shall appoint an arbitrator who [fol. 3382] shall decide whether Panagra may apply for

the certificate referred to in Paragraph 2 on the conditions therein stated. In case it should be impossible for Messrs. Iglehart and Whitney to act as arbitrators, as contemplated herein, the dispute or disputes in question shall be submitted to the American Arbitration Association for arbitration.

(Note) The underlined part of ± 5 will be difficult to have accepted by W. R. Grace, but believe otherwise it would be acceptable and not contrary to the conversations Roig and I have had. However, Roig feels that it would be better for both sides to avoid setting up a method of procedure to be followed in case of the unavailability of either Messrs. Iglehart or Whitney.

(Note) Mr. Roig feels that it is most inadvisable to put a time limit on the agreement, and Mr. Friendly states that it is not at all necessary from a legal standpoint. Roig points out that the document at best is a very general plan to set up machinery that can be used in case of disputes.

(Note) Mr. Friendly feels that the wording in ± 5 as above expressed would cover the case of resignation of either Messrs. Iglehart or Whitney.

[fol 3383] "Any disputes arising under this general plan and every phase thereof, including interpretations of 'adequate direct connecting service' referred to in Paragraph 2 above, which cannot be settled by the Board of Panagra, shall be determined by Messrs. D. S. Iglehart and C. V. Whitney. If they are unable to agree regarding interpretations of 'adequate direct connecting service', Panagra may apply for the certificate referred to in Paragraph 2 on the conditions therein stated."

.....

The above paragraph was read to me on the telephone on Wednesday, January 18, 1939, by Mr. Harold J.

Roig, and was stated by him to be the substitute text for the arbitration clause in the memorandum agreed between Mr. Iglehart and Mr. Whitney. Mr. Roig further stated that Mr. Iglehart had not intended that paragraph 5 of the memorandum should apply to the provisions of paragraph 2, but that when Mr. Whitney stated to Mr. Iglehart that he, Mr. Whitney, had supposed that paragraph 5 did apply, Mr. Iglehart had worked out with Mr. Whitney the foregoing provision so as to bring about arbitration under paragraph 2 of the memorandum under discussion. Mr. Roig offered to have his secretary dictate this provision and asked for a decision in the morning.

Mr. Roig's secretary dictated the above paragraph to me on the telephone on January 18, 1939 and I immediately furnished copies to Messrs. Trippe, Rihl and Friendly, who were in conference in Mr. Trippe's office.

[fol. 3384]

PAN-AMERICAN WORLD AIRWAYS, INC. EXHIBIT 361

PRIVATE

March 8, 1939

Memorandum To: Mr. H. R. Harris

Following your instructions, the following observations on last year's results are submitted. In addition I would like to make several general observations in which you may be interested.

According to data furnished me by SAGO Traffic, the total Panagra income from revenue sources in which SAGO Traffic is concerned, shows a slight improvement in 1938 over that obtained in 1937 and, therefore, all previous years. Herewith a comparison of the 1938 results with those of 1937.

	1937	1938	Difference
Passenger Traffic	\$682,989	\$ 653,477	\$29,512
Baggage Traffic	33,788	29,608	4,180
Foreign Mail	158,047	180,757	22,710
Air Express	55,624	71,347	15,723
Charters & Freight	34,681	78,332	43,651
	<hr/> \$965,119	<hr/> \$1,013,521	<hr/> \$48,402

Although a small increase in total revenue was secured over the previous year, the picture as a whole is not particularly pleasing, since the increase can be accounted for largely by two factors which cannot be counted upon to save the situation year in and year out, viz., foreign mail and freight flying. The mainstay of our revenue aside from U. S. mail receipts is, of course, and probably always will be, passenger traffic, and in this department in the face of the figures above, we do not appear to have done very well in 1938. Excess Baggage revenue, of course, closely follows passenger revenue, and since a decrease was noted in passenger revenue, it is only to be expected that the same holds true with excess baggage traffic. Air express shows an improvement and it is believed that this traffic will continue to progress more or less satisfactorily despite a good many factors which are and will continue to hold it back to some extent. Foreign mail revenue also shows an improvement, but the results in this department must be qualified as below. Charter and freight flying naturally show a big increase over the previous year owing to the Aramayo job and a number of charters sold in Bolivia. However, as noted above, this traffic is not a dependable source of revenue.

[fol. 3385]

PASSENGER TRAFFIC

An analysis of passenger traffic results offer some encouragement inasmuch as only one section of the line seems not to be showing a certain amount of improvement, the Eastern Division being only one of the four subdivisions which did not show an improvement over the previous year.

However, losses recorded in the Eastern Division were so large as to offset by a considerable amount the improvements noted in the balance of our mileage. While everything considered, the Northern sections of the line did fairly well in 1938, the immediate problem would appear to be in the Eastern Division and until we can obtain some sort of revival there, our principal efforts should be concentrated in that sector.

Several major factors and numerous minor ones contributed to the poor showing obtained. During the year, two of five transandean services were discontinued, which certainly removed some of the sales opportunities previously enjoyed, though it is doubtful that this factor will account for a very large part of the loss in volume. Undoubtedly the principal cause of our trouble lies in the fact that both Chile and Argentina have for some time been experiencing an economic depression which has removed the necessity, in some cases, and in many others the actual ability of the local people to travel internationally not only over our lines, but by any other means of transportation. This is particularly true in Chile where a study of passenger traffic data of all kinds reveals the fact that very few Chileans are traveling beyond the borders of their own country. It should be noted here, too, that a considerable part of the transandean traffic enjoyed in former years consisted of travel by Round South America tourists. The volume of this traffic shows a marked slump during 1938 and of course, this has a very real bearing on the final returns. As you know, we have several plans afoot which we hope will return some of this traffic to us.

It seems probable that no marked improvement in the Chilean situation can be expected for some time, and since we really have little hope of improved Chilean patronage until this takes place, it seems to me we should spend real efforts where there is presently a fair possibility of obtaining satisfactory results, in other words, Argentina.

There is no reason to believe that Argentina will not soon show some signs of pulling out of their present difficulties, and when this occurs, we will naturally recover

some of the volume we have lost. Meanwhile, there are a number of things we can do to help ourselves. Most of the things I have in mind have been rather thoroughly discussed in correspondence with this office, and there does not seem to be any necessity to go into much detail here. However, [fol. 3386] there are two general aspects of the situation which require some very real consideration here in New York inasmuch as there is little SAGO Traffic can do about them further than what has been done already. The first of these is the tariff differential which exists in our rates in the Argentine/Chile sector as compared with those of the German and French combination. Even without the rate reduction which they placed into effect in December 1938, the competitors have, in the course of that year, succeeded in booking just about 50% of the purely local business between the Argentine and Chile and vice versa. How much of this traffic was fully paid for we have no way of determining, but it seems entirely logical that they did succeed in some way in increasing their traffic during the year. With the present greatly reduced rates and with the same frequency of service offered by ourselves, that is, three times a week in both directions over this mileage, it is hard to see how they will not eventually cut very heavily into our patronage. So far we have no data which definitely proves that their rates are causing us any trouble, but they have, so far as our information goes, been in effect only one month. It cannot but seem entirely probable that we will not be able to hold our own in the face of competition of this sort, and a rate reduction down to their level, or at least approaching it, seems almost inevitable. Despite the fact that we do have better planes and probably a better all around service between Buenos Aires and Santiago, we might just as well come to the correct conclusion that this is not a governing factor to the extent that low rates are, at least where comparatively short-haul travel by Latin Americans is concerned.

Actually, both the Germans and the French operate quite fair services between these two points. I do not believe that we have actually any right to expect the lion's share of this traffic merely on the basis that we believe we operate a far superior service or that we are more efficient operators

than the Europeans. This idea is definitely not shared by the traveling public to the extent that they will favor our services,

Everything considered, it seems that we will, if we expect to retain our present position or to improve it, inevitably have to make some adjustments in our transandean tariffs. Frankly, most of us concerned with selling this travel are of the opinion that the present rate of \$100.00 is too high and could stand a considerable reduction. There is considerable data on this subject available in this office and it is suggested that at this time our course of action regarding possible future tariffs should be determined, in order that when and if we are convinced, as I am sure we will be shortly, a change must be made, the same can be done promptly and without having to go through the whole thing all over again. The other factor, which I am convinced is directly reflected in the income results in the [fol. 3387] Eastern Division is the poor service we offer on the Argentine portion of the Diagonal between Salta and Cordoba. There is a great deal of potential Panagra revenue in this sector but we will never realize on it until we do something about improving the service. My own observation is that all we need do at the present time is to put on one more service between Salta and Cordoba to connect at the latter point with one of the transandean services. However, it may be that some adjustment will be required in the tariffs in this section, particularly the round trip tariffs. The addition of another service over this mileage should certainly result in a tripling of present traffic, but it is quite possible and even probable, that the outcome will be even better. Here again we are merely fooling ourselves when we stress our superior service. For many years the Argentines in this section of the country have used their trains and although they are uncomfortable, they know of nothing better and are perfectly content to continue using them. I do not believe that they will remain content with this state of affairs if they actually experienced what we have to offer, but this will hardly happen until we offer them something they can use at a price they feel they can pay.

In view of the tremendous possibility in this market for us, everything within reason should be done to popularize the service, even if for a year to two it costs us money to do so. I think we can profitably, over a period of time, increase the number of services and reduce the round trip rates until we have built up a comfortable patronage. Once we get these people to flying, it is unlikely that a gradual increase in the tariffs to present levels would send them back to the trains. This may not be, of course, the best solution of our problem, but it at least should go a long way toward getting a reasonable number of these people into the air, and that is certainly the first consideration at this time.

This matter has been discussed at length on many occasions but it might not be amiss to point out again that under present circumstances on the Argentine section of the Diagonal our chief stock in trade—speed—simply does not exist since, except for a very few hours during the week, travel between any of the points on the Diagonal may be accomplished much faster by trains or busses. It boils down to the fact that all we have to offer in this market is a theoretical superiority in service—in other words, comfort, in which the people are not particularly interested since to date they know nothing about it.

The many minor problems existing in the Argentine are all receiving the attention of SAGO Traffic and the local agents, and some small improvement in local traffic can normally be expected therefrom.

[fol. 3388] As for passenger traffic on other parts of the line, last year saw some slight improvement over traffic in previous years as pointed out above. However, we know that the Germans have cut into our local Peruvian volume and the prospects are that they will continue to do so as long as the present rate differential between competitive points exists. In addition to what they are doing to our traffic where we now compete, that is, principally between Lima and Arequipa, it is probable that the same sort of situation will soon exist in the North where we understand the Germans intend to extend their services as far North as Guayaquil, connecting there with SEDTA and finally

with SCADTA in Colombia. Thus they may not only give us trouble with local Peruvian traffic but also with international traffic to the North.

Merely as an indication of what this competition may amount to in the future, herewith some figures on their traffic between Lima and Arequipa as compared with our own during the first six months of Lufthansa operation over that mileage.

	May	June	July	August	September	October
Panagra	49	52	70	66	54	56
L'hansa	29	43	57	64	63	88

Accumulated Percentages

Panagra	63	58	57	55	53	50
L'hansa	37	42	43	45	47	50

While the above figures do not indicate a marked drop in our own traffic, they do indicate that Lufthansa is definitely increasing their percentage over their total traffic, which is really a serious angle of the proposition. Naturally, they are getting some of Faucett's business as well as ours, but we are definitely not holding our own in this trade.

It is interesting to note that these people were able in six months time to draw up even with us, despite the fact that our schedules and equipment are far superior to theirs. Lufthansa departs from Lima and arrives at Lima at very inconvenient hours compared to Panagra arrivals and departures. This factor plus definitely inferior equipment has not overcome the advantages they secured through the use of more convenient tariffs, and proves again that short-haul traffic is interested in price to a greater extent than they are to comfort.

Since it appears that Lufthansa really intends to extend their line to the North, now appears to be the time [foi. 3389] when we should decide what our course of action should be in meeting their competition when it comes. It seems very unwise to await the actual start of operations

of their line before deciding what we will do at that time, and I believe that we have sufficient data in our hands now to predict what the results will be in the event that we decide to do nothing at all.

For some reason traffic between the Canal and Colombia and vice versa, has not lived up to expectations. The reason for this is unknown to me and results are very surprising in view of the popularity which this service enjoyed when we first opened up the Cali territory and indeed right up to the time service was suspended in August 1937. The Cali Agents have pointed out that there is a rate differential existing between our service and that of other combinations, and this may, of course, account for our lack of volume here. I understand that Mr. Muhlfeld has recently paid a visit to this sector and will probably be able to report on what should be done to improve matters.

AIR EXPRESS

While air express traffic continues to show its accustomed yearly 40% increase, much remains to be done about it in several places, notably Chile, where exchange control conditions practically eliminate any real chance for improvement. It seems quite within the realms of possibility that some means might be found to overcome this particular sort of handicap, and in Chile, as elsewhere, the potential revenue is rather large, someone with a thorough knowledge of the local situation might profitably spend some time on it. I believe Mr. Simon, given the time, might be able to turn the trick.

Mr. Muhlfeld reports, on January 11 in a memorandum to you, that between November 29 and the date of his memorandum we hauled more than two tons of air express in to Cali from the North, principally I take it, sea/air traffic from Cristobal. This has been accomplished almost entirely without selling activities on our part since we are not permitted to advertise this type of service. As you know, SAGO Traffic has never agreed to this policy attitude, in view of the actions of other carriers in this field and because we have convinced ourselves that this particu-

lar type of traffic travels only because of the sea/air facility and in no way detracts from the through all air services offered by the system.

Unless the considerations which have promoted our present policy regarding sea/air express are very strong indeed, I am sure we are passing up a very good opportunity [fol. 3390] to bolster up our express revenue by not pushing the sale of this traffic.

A possible and very likely explanation of the comparatively good showing made by express traffic lies in the fact that throughout the year we employed over a large section of our line, a modified air express tariff, which opened up several new fields for exploitation, which fields were completely shut off from us when the former tariff was in effect. The bulk of this improvement is accounted for by the movement of express out of the Argentine to Chile and Peru. Argentina, compared with most Panagra countries, is a seller's market whereas most of the others are importers of the type of goods which normally travels by air. The new tariff is favorable to shippers and consignees of heavier than average merchandise and the situation is in the process of being exploited by our express people in the Argentine and nearby countries. We have a similar situation existing in the North where exports from the Canal could be considerably increased, possibly if a more convenient tariff were in effect, and as you may or may not know, the new tariff referred to here is in effect North to Ecuador. Since we now have a certain amount of available space on our Southbound planes at Cristobal, I believe it would be worthwhile to apply the new tariff in that sector at this time.

For some time now we have not had anywhere along the line, a solicitor who devotes his entire time to the exploitation of our express traffic, nor have we had in SAGO Traffic any individual who is principally concerned with this phase of our business. I believe that the results we are now obtaining in express traffic are derived from the concentrated efforts we made to push the service beginning in June 1936 and extending for a period of about a year and a half. We at least succeeded in arousing a little in-

terest in this traffic amongst our agents and I believe that the work can be profitably continued.

Inasmuch as intra-Panagra express statistics have not been generally available up to now and have never been included in the system statistics, which are published every month, you might be interested in examining the following data on purely Panagra shipments during the month of January 1939.

<i>Country of Origin</i>	<i>No. of Shipments</i>	<i>Weight (Kilos)</i>	<i>Weight Charges</i>	<i>Valuation Charges</i>
Panama	19	189.5	\$197.03	\$ 7.48
Colombia	11	30.0	43.39	1.10
Ecuador	40	107.0	97.27	14.60
Peru	42	62.5	80.01	4.20
Bolivia	3	1.5	3.00	0.30
Chile	22	148.5	227.17	6.12
Argentina	69	409.5	347.44	11.01
	206	948.5	\$905.31	\$44.81

[fol. 3391] It should be remembered that January is normally and naturally not a particularly good month for air express anywhere on the line, and therefore, that these figures though interesting, are likely to be somewhat on the conservative side if used to project this year's probable results.

FOREIGN MAIL

Although the Green Books, the only financial data normally used by SAGO Traffic, show a \$22,000 improvement in revenue from this traffic in 1938 as compared with 1937, it now appears that all of this improvement, plus a considerable additional sum is a result of certain bookkeeping adjustments, and that far from actually obtaining a \$22,000 increase, we record in the White Books a \$25,000 decrease. Up to this time SAGO Traffic has never been supplied with any such statistics, which can tell us where and why an increase or decrease in mail revenue takes place. I believe

we are now getting certain data which will give us this information. Meanwhile a considerable part of the decrease is accounted for in short returns from the Argentine, where we received some 58,000 Argentine Pesos less in 1938 than we did in 1937. This is no doubt due in part to the decrease in our transandean frequency as well as to the additional service to the States up the East Coast which was inaugurated by Panair in December 1937, and thus was in operation throughout 1938. Another explanation of this decrease can be found in the loss of European mail from Peru to the new Lufthansa service which started operations in May. I am unable to say just what this amounted to, but presumably it comes to a respectable sum.

Frankly, SAGO Traffic has never been particularly concerned with foreign mail traffic, as it has somehow been regarded as outside of our sphere. As Mr. Vidal points out, however, revenue from this source is a matter of great importance to the Company and no doubt, SAGO Traffic should have a Mail Department under the direction of someone who is not only thoroughly familiar with the subject, but able to increase the traffic.

CHARTER AND FREIGHT FLYING

As no freight flying is contemplated for 1939, we cannot count on any revenue from this source during this year. There will always be a certain amount of charter flying, however, and presumably we will obtain about as much revenue this year from this source as in former years. However, the use of charters by the public seems to depend almost entirely on emergencies which arise from time to time, and over which the sales force would appear to have but little control.

SAGO TRAFFIC

Panagra's sales direction center, SAGO Traffic, is undoubtedly understaffed at the present time, particularly [fol. 3392] since such a large amount of time must be spent in connection with the direction of the department's budget. While it is true that the experience gained in this work

during 1938 has been of inestimable value to all who are concerned therewith, the time seems to have arrived now to delegate this work to other than those who should primarily be concerned with increasing the Company's business.

In view of the amount of revenue obtained from foreign mail payments, someone, as Mr. Vidal has pointed out, should be assigned definitely to the promotion of this sort of traffic, and to familiarize himself with all of the conditions on which its promotion depends. We have never had anybody in SAGO Traffic who has had the time or the facility to really do anything in this connection. We actually received a considerably smaller sum from this revenue source in 1938 than in 1937, so now would appear to be the time to seriously think about putting somebody on this job.

At this time we have no employee who can devote very much time to the promotion and direction of our air express traffic. This traffic was definitely unsatisfactory from the time the service was inaugurated until 1936, when it started showing some improvement and has steadily gone forward ever since. While air express is undoubtedly a "natural", I think it fair to assume that some part of the improvement in this traffic can be attributed to the assignment of someone to work on it exclusively, which transpired in 1936. It might also be reasonable to expect that it will not continue to progress unless we again place somebody in charge of this department to make sure that express solicitation, which is a highly specialized job, is revived.

Budget direction in 1938 must have taken up at least one-third of the General Traffic Manager's time, not to mention that of others of his staff. This is true to the extent that on practically every project originated during the year a delay occurred in carrying it through to conclusion, due entirely to the fact that, at certain times of the month, all other work had to be suspended in order to get our monthly budget work out of the way.

One or two general observations regarding the Panagra picture as a whole may be in order here.

It is my frank opinion that after ten years of operation, Panagra finds itself, so far as the Sales Department is concerned, miserably represented throughout the majority of its territory. This may not be at all true and probably is not where operations and executive affairs are concerned, [fol. 3393] but in matters of this type the local agency manager or a competent assistant handle them. Not so with sales. This branch of work, which is certainly not unimportant, is left as a general thing, to a local employee of a not-too-high type. Where this condition obtains, and it does rather generally throughout the line, results have been very poor indeed, though probably no poorer than might have been anticipated long ago. SAGO Traffic has spent much time and effort in trying to convince various agency managers to assign better personnel to its work, but so far with comparatively little success. My own experience has been that the local managers do not believe that the amount of extra business a better staff might obtain would, in agency commissions, justify an increased salary expense. This, almost invariably, has been the excuse given when we have found it necessary to demand better attention from the smaller agencies. On several occasions it has been definitely pointed out to SAGO Traffic that despite what might be heard to the contrary, our West Coast agents are very well paid indeed for handling our work. If this is the case, it occurs to me that the method of compensating them might be improved upon from the Sales Department's point of view. If the agents regard their Panagra representation and the direct compensation therefrom as being relatively unimportant as compared with some of their other activities, but are nevertheless properly compensated, would it not be a good idea to find some way to rectify their ideas in this regard? One way of doing this might be to pay them as, if and when they accomplish something for us and only then. This is the way we are presently operating along the Diagonal in Argentina and except for the stations where we obviously have the wrong man acting for us, it works very well.

SAGO Traffic regards—for example, the Salta and Tucuman representatives far superior to most of those on the West Coast in similar posts. There is plenty of reason for this feeling. These two agents are always on their toes, know all there is to know about our rules, regulations, what we have to sell and how to sell it, because their only hope of making anything out of their Panagra representation lies in their ability to obtain business for us. If these agents have not so far set the world on fire with sales, it is certainly not because they have not tried, but almost entirely because we have given them, up to this time, so very little to sell.

Another indication that we may not be following the right plan as regards dealings with our agents, can be drawn by making a comparison of the results obtained in Peru by Faucett's agents as compared with those obtained by our own. Certainly few of Faucett's representatives have anything like the standing in their respective communities that our own agents do. They get better results and there can be no question but what they do and have done for years, simply because they know that they [f. l. 3394] must pay attention to their representation, or, in other words, sell, if they mean to stay in business. This is not so vitally important to our own agents, and the results are only what we might have expected, which is to say that Faucett out-sells us by a wide margin.

With but very few exceptions our Agency managers and sub-managers are unable, as pointed out above, to take a long view of the situation and remember that in the long run their Panagra representation really is a rather good thing. On the other hand, they do keep a very close watch on current receipts and there is some justification for this reason in believing that our sales work is for them a relatively unimportant matter. Where this is not the case, for example, in Cali, Colombia, we are, in my opinion, quite ably represented, although in the case of this particular station the staff is comparatively small. The personnel that they have assigned to our work, however, is distinctly high class. To some extent the same might now be said of the Guayaquil Agency, where a competent foreign

employee is directly in charge of all phases of Panagra work and does not forget that sales are a very important part thereof.

Other considerations may of course, make it impossible to follow the course suggested above, which is paying for actual accomplishments when they are effected and not at any other time. If it is impossible to follow a plan of this kind, then some other means should be found to make it very clear to our agents that we expect the kind of attention to our sales work as they give, for example, to Grace Line sales. In a great many of the Coast agencies the Grace Line has succeeded in obtaining services of the very best employees of the individual agencies, in some cases having supplied Grace Line trained men to the agencies, whose salaries, we believe, are nevertheless for the account of the local agency.

Merely in passing it might be worthwhile mentioning here that no later than yesterday, while lunching with a former passenger, whose company gives us a considerable amount of business first and last, I was frankly told that the attention this man received on the West Coast—and apparently the attention shown several of his acquaintances who have made the same sort of trip he had—was markedly inferior to that received on other sections of the system. I personally have heard the same story so many times during the past two years, that there must be some truth in it unpleasant as it is to believe it. However, in the last analysis it is only reasonable to believe that if our routine affairs are not handled to our satisfaction, as they certainly are not, there is no reason to believe that this particular phase of the work is handled any better. Indeed there seems to be quite a sufficient amount of evidence to support the theory that we are not up to scratch in handling passenger traffic, and I believe that the failure [fol. 3395] occurs largely on the ground and not in the air.

Another matter which may be in order to touch upon is our almost complete failure in obtaining the cooperation of non-traffic department people in the Company in

effecting sales, with reference particularly to the piloting force. With a few outstanding exceptions, our pilots neither know nor do they apparently care anything about the Sales Department's problems, to say nothing of their general inability to answer the simplest questions about such fundamental things as tariffs. Pilots certainly get around socially with a great many more potential customers than do any other class of employees, and they could, if they would, furnish the Sales Department with many a good lead, if not with many an actual sale, and the same holds true of many other non-piloting employees. The truth is, unfortunately, that for many years this apathy towards sales has extended even to a general feeling of contempt for the Sales Department itself, and while some improvement in this respect has been noted lately, it is still true that much might be done to secure further improvement and actual interest in many of the phases of the Sales Department's work, and this, we believe, would result in increased sales. The Sales Department cannot deny that it is itself largely responsible for the attitude described above. Recognizing this fact it is trying to interest non-Sales Department employees in its work, but the cooperation of the heads of all departments is certainly a requisite to any real success in this endeavor.

The whole matter may boil down to the fact that we definitely lack an efficient personnel department. It has been my observation in talking with employees throughout the line that a large percentage of them are not altogether sold on the Company. A certain amount of "grousing" can, of course, be expected, but I believe we have far too much of this sort of thing in Panagra.

Probably few have any real complaint and could generally be made to see the light without too much difficulty, but regardless of the validity or invalidity of an employee's "gripe" it seems obvious that the thing must be cleared up before the Company can expect to receive the loyal and efficient service it has a right to expect from all employees. A really competent personnel supervisor could do a great deal for Panagra and I am sure that every employee would appreciate having a "friend at

court" to whom he would feel free to go with many of the problems which mean so much to the individual and are liable to have such a marked effect on his work.

G. P. Smith

GPS:BR

[fol. 3396]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 362

4314-P

NEW YORK COPY

SPEED-UP SCHEDULE STUDY.

LIMA, August 7, 1940

Pan American-Grace Airways, Inc.
NEW YORK

In connection with your letter No. 7437-Private, this will confirm our Palmetto cable No. 5 sent to you on August 6th.

As regards the idea of an operation making Miami/Cali and Cali/Lima in one day runs in both directions as compared to the other combinations of Miami/Cristobal and Cristobal/Lima in one day runs, the former, of course, from an operating standpoint gives us more leeway than the latter through comparative looseness of schedules. However, as pointed out in our cable, we feel we should undertake this schedule only on the basis of our going ahead as promptly as possible and installing the facilities which will permit a Cristobal/Lima and Lima/Cristobal operation in one day runs on delayed schedules. Our reasoning in this connection is that under such Miami/Cali schedule the frequent delays that will occur northbound due to winter weather in the south can only be absorbed by the operation of Lima/Cristobal in one day. Likewise, we should recognize the fact that during the rainy season in the north that afternoon departures from Cristobal for Cali will introduce delays as has been experienced in the past in entering Cauca Valley, and on such occasions a delayed schedule operation of Cristobal/Lima following day will place the

trip back on schedule. Also, it is felt that, with the early departure that this schedule will call for out of Miami that we can expect delays due to late arrival of connections at Miami, etc. with resulting arrival in Cristobal too late for making the Cristobal-Cali deadline departure.

The second point made in our cable No. 5 regarding elimination of Trujillo was made in view of the Cristobal-Lima delayed schedule operation plus the generally unsatisfactory field conditions there and we recommend that you give us approval to arrange elimination of this stop prior to placing this speeded-up schedule into effect.

The third point in our cable concerned the important question of handling mail transfer in the Canal Zone. Based on present practice and experience we are somewhat doubtful about the ability to make this Miami-Cristobal flight in time to permit working of the mail and still allow sufficient time for us to depart south from there by 1:30 P.M. EST. It now requires the post office two and a half hours to work this mail and even if a post office was established at the airport to save the time of round trip transportation between the airport and town it would still require a two hour period to handle it the way it is now being done. You understand, of course, that this situation is not necessarily the case on northbound flights through the Canal Zone because on such occasions and on basis of all the northbound mail being taken through to Miami so as to permit complete working and consolidation at that point, then the Canal Zone post office only requires this mail for purpose of recording the weights which takes only twenty to thirty minutes exclusive of present transportation time between field and post office. This question of working of mail by Cristobal post office does not seem to be one of inadequate personnel to handle it. As you know, the Canal Zone post office has gone into this phase of it rather thoroughly in the past and have worked numerous systems on the number of men and method of handling to reduce this time to a very minimum. Briefly, from our observation the matter seems [fol. 3397] to be one that requires just so much time to record each registered letter and consolidate the packets and

sacks for the individual points and that little or no reduction in time for doing this in the Canal Zone can be anticipated so long as the above requirements for handling this mail in this fashion are in effect.

The above remarks, of course, recalls the system used a few years ago when we were making Barranquilla Guayaquil in one day runs in both directions. You will recall, under this schedule, that the U. S. post office completed arrangements to station five men in Barranquilla to handle this mail during the overnight stops there as the schedule did not permit sufficient time during the transfer in Cristobal to work the mail. This idea may immediately bring to mind the thought of the U. S. post office making some such similar arrangement to handle the mail during the overnight stop in Cali under the schedule proposed in your letter under reply.

While this above problem is a matter which will fall largely onto your office to handle and work out the details, suffice it to say here from our view point, there seems to be only two solutions to this mail question which will facilitate our operating the Miami/Cali and Cali/Miami schedule in one day runs. First would be the elimination of *any* requirement for the Canal Zone post office to work the mail and that all this time and work involved be absorbed at the Miami end by the U. S. post office at that point. Second, the arrangement in Cali for handling the mail as afore mentioned.

Irrespective of the above two ideas, the question of having a U. S. post office branch on the airport at Canal Zone is still strongly emphasized because even though the function of such post office would only be to record the weights of the intransit mail the time saved in transportation to and from the airport to down town post office is most important.

After a review of the combinations of days of departures from Cristobal southbound and Buenos Aires northbound, as given in your letter, we advised in words 1 to 8 of our cable 5 that we favored acceding to the proposal made by Panair and covered in the third paragraph of your letter.

Certain opinions on these days of operation will be expressed here for your perusal as they concern our operating problems.

The days of departure from both Cristobal southbound and Buenos Aires northbound are considered excellent from standpoint of traffic movement. As you point out, of course, the inability to make a turn around in the Canal Zone on one trip per week under this proposal will require our stationing an extra plane and crew in the Canal Zone at all times. This, of course, has its bad features, but as pointed out in our study, attached to our letter No. 4100 P that unless we could have a full day layover in Canal Zone between turn around, that an extra plane and crew would be required. In other words, even though the days proposed by you in first paragraph of your letter were used, we feel that at least during the winter season, May to October, that we would have to keep an extra plane and crew in the Canal Zone to avoid southbound delays being introduced into our operations as result of northbound delays which may be expected to be frequent during winter season. Also, the extra plane and crew would eliminate the question which may arise as to excessive flying time for flight crews on the [fol. 3398] turn around at Cristobal without layover on this schedule. This round trip flying time without layover would, as you know, amount to 25 hours in a 60-hour period and might give rise to excessive flying without layover period. Therefore, we do not feel that the disadvantage of the requirement of an extra plane and crew is as great as it may appear on the surface, although the expense item of keeping an aircraft and crew at Cristobal will be appreciable. Naturally, the best combination would be a schedule which would give a full day layover between arrival of northbound trip and departure of southbound. We are assuming, of course, that all these possibilities were thoroughly exhausted by yourselves and Panair and that the proposal they made was the best that could be performed taking the problem of their other services and equipment into consideration. However, looking at a possible combination we wondered if this one was considered:—

Leave Miami southbound Tuesdays, Thursdays and Saturdays same as that shown in your letter which is the most desirable from our standpoint.

Leave Buenos Aires northbound Sundays, Tuesdays, Fridays, arriving Miami Mondays, Wednesdays, Fridays.

These departures are not the best days from Buenos Aires standpoint of traffic for us, unless there is no Saturday departure via east coast, but it does correct some of the operating defects mentioned in the Panair proposal in your letter in that it:—

(a) Permits them to operate the Cristobal/Miami run without round trip in one day in 307 even though this would keep their 307 in Cristobal more than in Miami.

(b) Would give us full twenty four hour layover in Canal Zone between our northbound arrival and southbound departure with its advantages already mentioned.

The fourth and fifth points mentioned in our cable No. 5 are sufficiently clear to require no further explanation here.

We await further word from you on this matter with interest.

(Sgd.) T. J. K.
T. J. Kirkland

TJK:mh

cc: NY(2)

Sago

[Vol. 3399]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 363

NEW YORK COPY No. 5299 Private

TRAFFIC PAYLOAD AND SCHEDULES

— Lima, March 1st, 1941

PANAGRA
NEW YORK*Attention: Mr. H.J. Roig*

Please refer to your P-8452, P-8480 and our 5218.

In reply to your question, "we are entitled to all the payload which we require to insure an adequate and satisfactory connection with our service" and with direct reference to Debbs' memorandum of January 22nd and in particular that part where he says, "in summary . . . most of the west coast business is booked from a distance in advance and has resulted in giving Panagra a fair break of the total passenger load", I have several comments to make.

Payload: You are in receipt of our monthly CRC reports from which you have observed that the load factor over the Balboa Cali sector is now averaging 75% with traffic increasing from 3.6% each month over the preceding month. This indicates we are running at full capacity in this sector. In fact, when we are operating at 55%, we frequently are turning down business. Our figures prove this as you will note from the following study which I just completed:

1.—During January, we had approximately 25,000 kilos of available payload out of Balboa Cali sector on our trunk line services of which 35% or 8,750 kilos were allotted to mail and express. Translated into seats, we had during January about 156 seats. Our reservation control, however, shows we carried 158 passengers. As a matter of fact, we carried 168 passengers but 10 disembarked at Cali.

2.—During this same period, we refused 25 passengers out of Balboa and Cali of which we rebooked 9. In other

words, our planes were fully booked. The load factor did not reach 100% because we must provide certain allowances for mail and express about 10% above average loads in order to handle increased loads and varying loads which point is mentioned by Dobbs in his memorandum.

3.—A further study of traffic shows that we received a total of 390 passengers at Balboa and Cali during the period December 1-February 15 of whom only 173 or 45% came from Eastern Division and 217 or 55% from Western Division and Avianca and other System points. In other words, it appears that about 50% of our passenger traffic south-bound flows into Panagra via Eastern Division.

4.—The above data explains why we have at times asked Miami to release some of the allotments which are held over Panagra. We must accept long haul business as space requests are received from System points. If we did not follow this policy, we would be holding space open for the Eastern Division and gambling on every trip. In other words, we would be out of money.

5.—We ended the year 1940 with revenue from passengers baggage, express and mail 50% above 1939 and so far this year it looks as if traffic is increasing 3-6% but as we [fol. 3400] have already reached the saturation point up north and over other sectors, I doubt whether with present schedules, we can expect an increase for 1941 of more than 25% above 1940.

6.—A further analysis of our traffic indicates that probably about 10% is composed of long-haul passengers who make few, if any, stop-overs; 60-65% who are long haul and make stop-overs and the balance short haul passengers. This again explains the reservation problem, for the broken long hauler must be given preference over the short hauler. From a payload or reservation handling standpoint both of the latter present nearly the same problems.

I think all of the above data shows quite clearly the following:

1.—We can not accept much more traffic than the amount which Panair is now giving us.

2.—Because we cannot accept more traffic, we must necessarily agree with Dobbs that we are getting a "fair break" from Eastern Division.

3.—We can not go to Panair and ask for more space until we also have more space.

4.—To obtain more space with minimum amount of flying we must revise present schedules.

5.—Almost our entire line might be called a bottleneck due to heavy traffic moving between principal cities.

Schedules: Relative to schedules, I believe we should do the following as soon as possible:

1.—Cancel the Cristobal/Guayaquil DC-2 service serving Ecuador and replace it with a fourth international DC-3A service as far as Arequipa, operating on the same schedule as the other three services.

2.—Arrange to serve Ecuador with two DC-2's based in Ecuador connecting with the international services at Guayaquil.

3.—Consider making a connection from Ecuador with Avianca at Ipiales.

4.—Operate international services out of Balboa eliminating Cristobal, Quito and Uyuni and adding Cuzco, Sucre and Rosario with DC-3A's on Diagonal.

5.—Operate a third service between Arica and Santiago with DC-3A's.

6.—Extend the fourth service under item 1 south via Chile and/or Bolivia at a later date.

We would then have a west coast service making the following stops: Balboa, Cali, Guayaquil, Talara, Chiclayo, Lima, Arequipa, Cuzco, La Paz, Oruro, Sucre, Salta, Tucuman, Cordoba, Rosario and Buenos Aires. Also Arica, Antofagasta, Santiago, Mendoza, Cordoba, (Rosario) and Buenos Aires. In Ecuador our services would stop at Guayaquil, Cuenca, Loja, Salinas, Manta, Esmeraldas and

3486.

Quite with a possible extension to Ipiales to connect with Avianca.

These schedules, besides giving better service to all countries on The Panagra Route, provide for greater frequency and hence actually faster schedules to the long haul stop-over passengers mentioned above, would give us more payload and place us in a position where we could go to Panair and obtain a fourth direct connection out of Miami. Mr. Kirkland is studying various problems concerning equipment and schedules and further detailed information will be forwarded in the near future. In the meanwhile, I trust the above answers your P-8452 and P-8480. If not, kindly advise me.

J. E. Muhlfeld, GSM.

JEM/DVC

cc: SAGO RS
NY (2)

[fol. 3401]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 364

Cable Address "PANAGRA"

Pan American-Grace Airways, Inc.
135 East 42nd Street New York, N.Y.

Letter No.
5634

Subject: TICKET OFFICES

Lima, May 7, 1941.

PANAGRA NEW YORK

Att: Mr. C. de Groot

LIMA OFFICE:

Further to our letter No. 5572, the other day I arranged a meeting with Messrs. Shea, Stebbins and Woll during which I pointed out the need for providing Panagra with a

first class modern air line ticket office, located either in the Hotel Bolivar or near vicinity, with neon sign, modern show windows and all the other trimmings which go to make up a modern airline office. Three years ago I had a similar meeting in which the idea was turned down but after pointing out to Mr. Shea that Panagra was now selling more passenger business than Grace Line he took the attitude that whatever was best for Panagra's interest should be carried out.

As a result of our conversation we decided that Mr. Woll would submit to me a budget with full details regarding the proposed new office and that in the meanwhile both Mr. Shea and myself would write to New York to inform Messrs. Iglehart and Roig. Mr. Shea pointed out that Mr. Iglehart had definite ideas regarding Grace offices on the west coast, and it is my understanding that his ideas are that Panagra should be located in the Grace buildings. In any event, it appears that Mr. Iglehart will have to approve the plan of separating the ticket office from Grace & Co., therefore, it is my suggestion that you speak to Mr. Roig and explain to him the need for making the change and also point out that the change in no way affects the Grace Co. organization insofar as Panagra's representation is concerned.

Regarding this last point I would like to state that when Mr. Shea asked me whether this would bring about a change in the Management, I advised him that it would not for the reason that it would merely mean that the ticket office would be moved out of the Grace building to a new location with no change whatsoever in personnel or management. In other words, insofar as Panagra is concerned, we will continue to address our letters to Grace & Co., agents for Panagra, and as far as running the ticket office is concerned, Mr. Woll, Sales Manager, will continue to work directly under Mr. Stebbins and the Grace Management in Lima.

I believe the above should be carefully explained to Messrs. Roig and Iglehart at the time you bring this matter to their attention, otherwise I am afraid it will be a difficult job to sell Grace on the proposed plan.

[fol. 3402]

Cable Address "PANAGRA"

Pan American-Grace Airways, Inc.
135 East 42nd Street New York, N.Y.

Letter No.
5634-NYK

Subject:

-2-

BUENOS AIRES OFFICE:

Regarding the new Buenos Aires office, I am attaching herewith floor plan which Mr. Roll was kind enough to bring up with him from Buenos Aires and after discussing the matter with him (he is now in Lima) he pointed out that the Shell Mex people had agreed to install the counter and panelling along the walls for their own account and that this would cost them between 50,000 and 60,000 pesos in all including the show windows and other trimmings. It appears that the office will be styled along the lines of the other ground offices in the same building, which from our point of view is satisfactory, for at a later date if we find it necessary to take more floor space it will be a simple matter as the other offices on the same floor are all equipped with counters and furnishings suitable for our use and styled along the same lines.

As regards the show windows, the latest scheme is to have the base or whatever you call it on small rollers so that the display stands can be rolled away from the windows and turned around for dressing. This seems to be a very practical idea and was recommended by Mr. Smith, who also has some other ideas on the matter of furnishing the office. As regards the counter and interior decoration, as stated above, it is our plan at the start for Shell Mex to provide us with passenger and express counters, as you will notice from the attached plan, and panel part of the walls. The remaining part will remain untouched until the new plaster and paint has had a chance to thoroughly dry out. The floor space between the passenger and express counters and windows will be furnished with writing tables and chairs and lounges for passengers, more or less like in the Santiago office. Aside from this, however, no fur-

their plans have been developed other than that an interior decorator will probably be called in to do the job.

In the meanwhile, however, Mr. Roll and I both would like to have you furnish us with any ideas which you may have and also any sketches or drawings taking into account the fact that we wish, insofar as possible to decorate all offices in such a manner that they will have some family resemblance to each other. As the Argentine company is owned by Pan American Airways about all we can do is suggest that they adopt our ideas but in this regard, we can, of course, count on the full cooperation of the local management.

J. E. Muhlfield

J. E. Muhlfield, GSM

JEM EP

cc: (2) NY SAGO T S

HJR Roig-NYK

[fol. 3403]

PAX AMERICAN WORLD AIRWAYS, INC. EXHIBIT 365

64

HJR Series

Ticket Office

New York, June 4, 1941

Mr. Douglas Campbell,
Lima, Peru

Dear Douglas:

When I first read Lima's No. 5634 regarding Lima Sales Office, I did not take it very seriously. In speaking with Woll the other day, however, it appears that he regards this change not only seriously but imminent. I am therefore calling the matter to your attention in order to prevent time being unnecessarily wasted in this connection.

It is my understanding that the facilities provided by the proposed extension to the Grace Building will give ample

opportunity for a Panagra Ticket Office in whatever form seems most suitable. I see no reason for considering any change in the meantime. I have no objection to trying on an experimental basis the idea of having a representative on an inexpensive basis at the Hotel Bolivar but I see no reason for considering a complete removal of the traffic office.

Very truly yours,

[fol. 3404]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 366

PAN AMERICAN-GRACE AIRWAYS, INC.

435 East 42nd Street New York, N. Y.

Letter No.

DC-87

Lima, June 9, 1941.

Mr. H. J. Roig,
NEW YORK.

Dear Mr. Roig,

With reference to your letter No. 64, you have no cause for concern with regard to my own point of view on this matter as I have repeatedly told Muhlfeld that any consideration of moving the entire traffic office to another location would simply be a waste of time.

This whole matter is to a certain extent the outgrowth of DeGroot's recommendation that our ticket offices at all points be "streamlined" in order to make them similar to modern travel ticket offices in the States, and also his suggestion that some of them could be better located in the respective cities in order that the traveling public would be more likely to see them. However, DeGroot was looking at this from the point of view of the American tourist who is still only a small part of our business and I think that he overlooked the fact that in a town such as Lima any one who is likely to travel by plane is fully aware of the location of the office.

I am in favor, however, of having a representative with a desk in the Hotel Bolivar or vicinity with proper telephone connections to the ticket office, airport and Reservations Control, as I feel that our tourist clients as well as overnighting in transit passengers are entitled to the additional convenient service that such a setup would make possible.

As Muhlfield is leaving for New York tomorrow on account of the unfortunate critical illness of his father, you may have an opportunity to point out to him your ideas and general policy with respect to the above.

Sincerely,

(Sgd) DOUGLAS CAMPBELL
Douglas Campbell

(fol. 3405)

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 367

August 1, 1941

Director	Assistant Director
Public Relations	Public Relations
New York	New York

PANAGRA PUBLICITY

In accordance with your verbal request of recent date, with Mr. Righi's assistance, I have made a careful study of the public relations record of Pan Grace and the publicity effort made on their behalf by our department, extending back practically to the time of the announcement in February, 1939 of the formation of Pan American Grace Airways by W. R. Grace & Company and Pan American Airways.

In addition, a special detailed study has been made in terms of releases and stories handled, pictures and radio work in an arbitrarily defined period extending from January, 1939 to the present time. A separate report on this period in terms of releases covering Panagra activities is attached. This period was made the subject of special

study because it is roughly within this time that, acting upon specific requests of Panagra management and under a plan of our own devising and approved by that management, we undertook, with certain admitted failures, an intensive specialized effort for Pan Grace of a type and kind never attempted for any other separate operating unit of the System. This catalog of releases covers generally the time in which separately Messrs. Riley, Russell, Curtis and Righi, discussed hereinafter, were exclusively engaged on Panagra work.

This study shows, as does the special report which you recently prepared for the Comptroller's office on work performed for Pan American Grace Airways by the Public Relations Department, that our efforts have been extensive, consistent and continuous to the end which we had in mind, working with such material and aids as we had at hand. In certain respects it has not been a perfect record but considering all of those many circumstances over which we had little or no control, it has not been as totally bad as is sometimes implied.

At any point in which a study is begun of the plan for the System Public Relations Department to handle and direct publicity for Panagra, we find full agreement of all concerned on two points: (1) that Panagra's interests would best be served publicity and public relations wise by such an arrangement and (2) that the active operating management of Panagra has always admitted that it was without specialized knowledge of publicity and public relations technique. Yet the principal source of criticism is the same as that which admits this lack. The record as a whole does not fully bear out this criticism. In this connection, it occurs that perhaps we have consistently failed in not bringing directly to the attention of those most interested in a fair and proper presentation of Panagra services and activities the results which we have obtained. This, it is conceivable could lead to misunderstanding and unwarranted criticism. A recent sampling of clippings from all sources, supplied by our clipping bureau, bears this out and shows that in addition to those general System stories which make reference to

services of both east and west coasts of South America, there is a high proportion which makes reference exclusively to Panagra.

First and briefly for the sake of the record, going back to February 21, 1929, the date of the announcement of the organization of Pan American Grace Airways, up to the time Panair began through service operations on the east coast, all of the Public Relations Department's effort, as regards through South American travel, was, of course, done to the end of featuring west coast air travel. The fact was always stressed that the fastest through service from the United States to the most distant capital of South America was obtainable on the west coast. At the time, less than a year ago, of the establishment of through high-speed land service on the Brazilian cut off, this always to the lay [illegible] a startling fact, had been well established with the general public.

General releases put out by the System Public Relations office on Latin American services are of three kinds: those which deal with new schedules or special developments on a certain clearly defined route; those dealing with South American air services as a whole and those gotten out exclusively in the name of Panagra. The first is in a minority. Those of the second category have invariably stated that there is in operation American flag service on both coasts of South America and that the operator of west coast service is Pan American Grace Airways.

In the period of special study of this survey extending from January, 1939 to the present time, forty two releases of the last two categories were issued. This is more than eighty per cent of all formal press releases prepared by our department and of this group thirty two or about ninety per cent were gotten out exclusively in the name of Pan American Grace Airways.

The foregoing, it should be borne in mind, is concerned exclusively with news announcements. In addition throughout this period, many special travel and other feature stories, both for newspaper travel sections and magazines, were prepared in the interest of Panagra. A great many

of these were on special assignment. It is understandable that a measure of disappointment in this special category of our Pan Grace efforts has been felt by Panagra for a number of reasons. In terms of travel and established [fol. 3407.] tourism with which steamship organizations are far more familiar than airlines, it was natural to look for free publicity in newspaper travel feature pages and travel magazines. If in the period here under study the record is weak, it must be admitted that it is weak for the System as a whole. During the period still continuing of its great expansion, the story of the services of Pan American Airways was continuously carried to the general public in many important news stories in a manner and extent which could never be achieved exclusively through travel pages and in this regard, Pan American-Grace Airways as an established going organization could not hope to participate except as a unit of Pan American Airways System as a whole. Because of a serious lack of man power in the New York office of Public Relations, such specialized effort could not always be made in the exclusive interest of Panagra. Panagra here perhaps has suffered more than the regular Divisions of Pan American because it has always been deemed a function of the Division Public Relations Representative in the field to develop and prepare straight travel stories covering points of interest in the territory served by the lines of his Division. The Public Relations Representative at Lima does not appear on the record to have maintained the same high point in this field of endeavor as has been done by Public Relations Representatives for the Eastern and Pacific Divisions or by the Public Relations office of Cia Mexicana.

Despite all of the foregoing, however, Panagra's interests of a considerably extensive period in this matter have been consistently kept in mind by the New York office. It is fair to state on the record that more effort has been made to develop pleasure travel to colorful parts of the west coast of South American than any other single sector of the Pan American spheres of operation. In the international campaign launched by the Scripps Howard newspapers in 1939 and continued through 1940 to stimulate inter-American

pleasure travel material contributed by our department consistently featured the west coast of South America. During these periods when there has been available in the New York office a Public Relations Representative exclusively concerned with Panagra work, the volume of such travel stories has risen impressively.

The shortcomings which are freely admitted as represented in the foregoing situation were among the things which inspired steps toward the hiring of a special representative to be attached to our New York office and to be solely concerned with the affairs and interests of Pan American Grace Airways. This resulted in the placing on our payroll on November 24, 1939 of Mr. Nelson Riley, subsequently assigned to exclusive Panagra work, under your general supervision and the close cooperation of Panagra.

On November 25, in a detailed memorandum over your signature there was outlined to Mr. Roig the method of procedure to be followed under this new setup:

[fol. 3408] On November 30, Mr. Roig acknowledged your memorandum of the arrangement stating:

"Pan American Airways' Publicity Department will act as publicity representative of Panagra in the United States in the same manner as any publicity firm might do. All the facilities of the Pan American publicity organization to be available to this end as may be required.

"Mr. Riley of the Pan American Public Relations Department will be in particular charge of Panagra work in the same manner as one person in any publicity agency might be in direct charge of a particular account. He will devote his time exclusively to Panagra work and will be free to call upon other members of the Pan American publicity department for their cooperation in connection with his work."

This memorandum from Mr. Roig makes reference further to the fact that Mr. Riley was to have full cooperation of the officers of Panagra and Panagra's traffic staff and of the Sego publicity department in Lima. Having been away from the New York office during the greater portion of Mr. Riley's employment, I do not know in this

case to what extent this promised cooperation was lived up to, but I can state for the record that personnel of our department who subsequently succeeded Mr. Riley have repeatedly failed to obtain this promised cooperation. On January 5, 1940, while Mr. Riley was still in our employ, Mr. Roig submitted to us certain additions and modifications of the memorandum of agreement referred to above, the points being primarily of a minor nature and involved with details of organization and calling for a clarification of the budgetary responsibilities severally of Pan American and Pan American Grace Airways.

Mr. Riley continued on our payroll until June 30, 1940. He was succeeded on an interim arrangement basis, until a full-time successor could be appointed to Mr. Riley, by Mr. Arthur E. Curtis, Eastern Division Publicity Representative. Certain definite worth while projects to the exclusive benefit of Pan American Grace Airways were carried out during the period when Mr. Curtis was actively engaged as a member of the New York office on Panagra publicity projects. This was particularly true in regard to the development of travel feature stories referred to above, radio work, especially with the "Wings Over America" program of the National Broadcasting Company, and in laying the groundwork for home town passenger press service.

Thru circumstances over which we had no control, Mr. Curtis, who was on temporary assignment in the New York office through special arrangements made by Vice President Evan Young, had to return to his Miami station before we could find a permanent successor to Mr. Riley. [fol. 3409] We were eventually successful in obtaining the services of Daniel Russell who was our own original candidate for the post, but had been passed over by Panagra in preference to Mr. Riley. Mr. Russell submitted his resignation after a period of six months with us, stating as his primary reason his inability to obtain satisfactory cooperation from Panagra personnel in order to carry out various assignments which we had given him.

One of the first assignments which Mr. Riley undertook was to coordinate activities with the Panagra Public Relations representative in the field and stationed at Lima. On

paper it appeared that a satisfactory working arrangement had been set up. In practice, however, the desired objectives failed to materialize. It is difficult to explain this except on the basis of the character of personnel employed, since the method and procedure followed in no radical way differed from the coordination procedure followed in relating the activities of Pan American Grace System and the New York office and its various division public relations representatives. While it might be conceded that the West Coast of South America has peculiar and unusual publication conditions, little of the extremely small amount of material sent from Panagra public relations representative at Lima has either been serviceable or usable in the United States.

The record here under study shows an unsatisfactory supply of pictorial material forwarded from the Panagra Lima office, almost all of it unusable by the United States press. Analysis of material received from Mr. Manduley, Lima, Peru, during the month of July, follows:

(1) On July 9th, a package of glossy prints of Mr. Douglas Fairbanks' visit to Lima was received in this office. The cover memorandum was dated June 28th. The poor quality of the pictures, as well as the generally poor composition of the same, would have made the use of most of the prints impossible but the fact is, that the office had already received pictures in large numbers from the East Coast covering this trip and the arrival in Miami of Mr. Fairbanks himself about a week before Lima's photos came to hand had already rendered this material obsolete. There seems to be no justification for 12 days in transit for any spot publicity material.

(2) As of July 18th, we received a copy of a memorandum by Mr. Manduley to Grace & Co., Santiago, Chile. This memo gave Grace & Co. instructions regarding the publicity for a group of 15 members of the American Youth Hostels, Inc., on the part of their trip by air between Santiago and Buenos Aires.

(3) Dated July 22nd, arriving here July 29th, was a copy of Mr. Manduley's memorandum to Pan American Airways,

Los Angeles, regarding the arrival at Lima of the members of the "Western States Latin American Clipper Cruise." As Mr. Manduley states in this letter, Mr. Ramirez Cardenas, from Mexico City, had already informed all necessary elements of the System of the publicity value of the cruise. As a result, New York received pictures from Mexico City, dated July 14th, from which suitable cuts had been made for NEW HORIZONS. The pictures which [fol. 3410] Mr. Manduley mentions in his memo of July 22nd reached New York August 4th and were thus unusable. Further note may be made of the fact that the photographic material was technically imperfect and could not stand reproduction.

The failure of Panagra's field representative in this respect, as much as any other single factor, accounts for the poor showing in Panagra's favor on the record in recent months. Despite repeated queries in this regard, this representative has entirely ignored requests for material, particularly editorial matter which could be used in the company publication, NEW HORIZONS. It is doubtful if the existing, if temporary, setup which exists with Mr. Righi currently handling Panagra work exclusively or your proposal in regard to a permanent arrangement involving Mr. Harner can be expected to work exclusively over any long period unless this field situation is thoroughly overhauled and corrected in the light of what that examination doubtless will reveal.

Francis Walton

AJ
FW:GN

[fol. 3411]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 368

WORK PERFORMED FOR PAN AMERICAN
GRACE AIRWAYS, INC. }

PUBLIC RELATIONS DEPARTMENT

(New York)

PAN AMERICAN AIRWAYS SYSTEM

[fol. 3412] The Public Relations Department of the Pan American Airways System is constantly concerned with the inclusion and identification of Pan American-Grace Airways with any news or promotional material which can be useful in identifying the progress being made by American aviation in Latin America.

Effort is constantly made to identify this operation with the general functioning and advancement of American aviation in this field. Identification of Pan American-Grace Airways with this subject is a result of cumulative effort, through more than ten years of effort directed to stimulate interest in the Pan American-Grace Airways' operations. As a result, considerably more attention has developed, and a wider acceptance of the services performed by that company has been secured than would have been practical through an independent and unrelated publicity promotion of the company's normal activities.

This involves, as routine practice, the attention of all members of the Public Relations Department. The Department is also available, at all times, to Pan American-Grace Airways for the handling of particular news or institutional matters properly within the range of public relations.

Insofar as Public Relations is concerned, all general releases issued by the New York Public Relations Office, in the name of the System as a whole, and dealing with air transportation generally in South America, identify Pan American-Grace Airways. Such releases are quite numerous. In addition, there is a special type of release frequently gotten out which makes direct reference to "ser-

vices on both coasts of South America." In the latter case Pan American-Grace Airways is always named as the operator of the West Coast-to-Buenos Aires service.

Regular routine of this Department includes considerable telephone work with publications, press associations, radio and other channels of public information through which material with respect to Pan American-Grace Airways' operations and services, details of equipment, and plans of progress are constantly being disseminated. A similar detailed watch is maintained to prevent, or, when this is not possible, to correct publication of misinformation which frequently is transmitted through press channels from the countries served by Pan American-Grace Airways.

[fol.3413] This Department maintains active contact with several hundred agencies for the distribution of public information. The normal routine involves an average of some 70 telephone calls a day for the Department. A proper proportion of these is devoted to subjects concerning Pan American Grace Airways or general subjects in which they have an interest or are identified.

Efforts have been made to employ and maintain a qualified Public Relations Representative whose entire time and attention is devoted to public relations work for Pan American Grace Airways. In those intervals when such an individual is not available, other members of the Department are assigned the specific handling of Pan American Grace Airways work.

The Pan American Airways Photographic Service is constantly fulfilling requests for pictures of scenes in areas covered by Pan American-Grace Airways services as well as actual operation and institutional pictures of Panagra subjects.

In addition to the work of a general and routine nature conducted by this Department, the individual members have conducted such specific work for Pan American-Grace Airways as the attached:

[fol. 3414]

**WORK PERFORMED FOR PAN AMERICAN
GRACE AIRWAYS**

1. DEPARTMENT: Public Relations
2. NAME of EMPLOYEE: William Van Dusen
3. POSITION: Director of Public Relations
4. WHERE EMPLOYED: New York
5. John Miller, George Jervais, Daniel Sayre.
6. Conferred with Pan American Grace representatives with respect to the formulation and execution of plans re:
 - a. Securing necessary information on personnel of Pan American-Grace Airways as a means of developing feature institutional articles for the home-town press of those individuals to stress the organization, work and importance of the airline.
 - b. Assembly of necessary information with respect to the new Pan American-Grace Airways radio system.
 - c. For a report on the meteorological work and research conducted by Pan American-Grace Airways for institutional use both on the airline and through the technical and general press of the United States.
 - d. Development of a practical system for obtaining names and details of passengers for publication purposes.
 - e. Securing the necessary detailed information from South America for the preparation of feature articles pointing out the benefits and attractions of "foreign service" as related to employment with Pan American-Grace Airways.
 - f. Securing of feature story material concerning personnel useful for human interest story development with respect to services, particularly in Argentina, Chile, and Peru.

- g. Information on details of express traffic for feature stories.
- h. Requested details for any new flight equipment plans.
- i. Concerning passage and cooperation for authors and writers interested or influenced in traveling the Pan American-Grace Airways routes, reporting on aspects of the service.

[fol. 3415]

- j. Relative to the necessary and continuous routine reporting to this office of activities and developments along the airways by the press office in Lima.
- k. Development of a system for securing more and improved news and pictures of Pan American-Grace Airways passengers and service activities and illustration material useful to the company travel, traffic and institutional stories.
- l. Concerning the use of and settlement for photographs taken by Duncan for "Look" magazine.
- m. Respecting news leaks in Ecuador and Bolivia.
- n. Concerning applications filed with the C. A. B.
- o. In re-editing of the motion picture "Land of the Incas."

Conferred with representatives of Pan American-Grace and Traffic Representatives of the Pan American Airways on behalf of establishing a system through which this Department could be advised of passengers booked to travel over the Pan American-Grace routes in order that this particular service could be made available to the wire services, to the international radio broadcasting services, and to the general press.

In behalf of Pan American-Grace Airways, conferred with:

- a. Authors and writers interested or to be interested in the featuring of material concerning Pan Amer-

ican-Grace Airways in magazine and book publications.

b. Photographers relative to a wider distribution of fishing pictures and promotional credit for Pan American-Grace Airways. In connection therewith, the motion picture producers were conferred with relative to re-editing, addition of material to and new narration for, the Pan American-Grace Airways travel promotion film.

c. Officials of the National Safety Council and the Inter-American Safety Council to secure their agreement to present a separate award to Pan American-Grace Airways for the past year's operations. This successfully secured, the assignment then involved the following:

1. Outline of the certificate draft and direction of the artist.
2. Arrangement for a place at the speakers' table for Mr. Roig to whom the presentation was to be made.

[fol. 3416]

3. Contacting the wire services regarding the cabling of the Safety Award report to South America.
4. Conferring with the Safety Council for the preparation and distribution of a special story on the award.
5. The notification of the general press with respect to the award to Pan American-Grace Airways.
6. Arrangement for the taking of photographs showing Mr. Roig receiving the award and the distribution of these photographs by air-mail to the general press and to Pan American-Grace press office in Lima.

d. Conferred with wire services to prevent publication in the United States of erroneous report re-

ceived from Peru confusing Fawcett and Pan American-Grace Airways.

- e. Arranged meetings, entertainment and trips for visiting Chilean journalists.
- f. Wrote and prepared special distribution from Washington, D. C., of a news story to feature new Pan American-Grace Airways services as feature of Pan-American Day.
- h. Conferred with Farrar & Rinehart, Publishers, in behalf of securing proper credit and representation for Pan American-Grace Airways in connection with their Pan America "good-will" prize novel plan.
- i. Initiated with officials of the wire services, consideration of establishment of additional South American news bureaus or improvement in personnel of bureaus already established, looking toward transmission of news material of interest to the company to have published in the United States.
- j. Conferred with motion picture producers relative to the re-editing and reforming of the Pan American-Grace promotional film and the editing of the script required by these changes.
- k. Conferred with various authors projecting trips to South America on behalf of their specialization on West Coast of South America and for their inclusion of material of value and benefit to Pan American-Grace Airways.
- l. Prepared general story on Panagra plans and activities for general distribution through the Senior Letters to the press and publishers.

[fol. 3417]

- m. Made outline for, wrote final draft, and directed distribution of:
 1. Travel story on West Coast hotel facilities.
 2. "Trade" report on current traffic trends.
 3. Progress report in terms of new routes, etc.

- n. Interviewed Pan American Grace Representative from Lima for press material on traffic, competition, special details of service.
- o. Enlisted support of press protecting Pan American Grace Airways' interest on calls for giving up airline equipment for Britain.
- p. Conferred frequently with reporters, wire service editors and special writers on directing or controlling news reports concerning developments in (a) Ecuador (b) Bolivia.
- (c) Peru, at time of grounding Lufthansa.
- q. Several conferences with publishers toward publication and distribution for air travel guide book for Pan American Grace Airways territory.
- r. Several conferences outlining detailed assignment for author to secure material for guide books and assemble, write and distribute releases of press stories on trip over the Pan American Grace Airways lines.
- s. Interviews with candidates for position of press officer for Pan American Grace Airways in New York. Also conferred with Pan American officials, in New York and Miami, relative to the transfer of a Pan American employee to this office to act for Pan American Grace Airways.

Designed three separate programs to secure necessary detailed information for Pan American Grace Airways and for its passengers distribution, in publishable form, to the U. S. press and other informational channels. These programs have covered definite courses of action for the individual assigned to Pan American Grace Airways work and have outlined, in terms of specific assignments, material required and how it is to be prepared and distributed. A supplementary program was analyzed for the distribution of applicable information through airline informational outlets served by the Pan American Airways offices in the field.

[fol. 3418] In addition to those and other specific items of work, the writer has conferred almost daily with Mr. Righi, temporarily assigned to the task of securing specific information from Pan American-Grace Airways upon which the public relations and publicity work is absolutely dependent.

This involves my detailed outline of specific information required, the draft of specific stories to be developed, the specific distribution to be made. In those cases where such information is received, the writer has personally made the final drafts of the articles for publication and has personally supervised the distribution of these releases.

This process involves not only the original assignment but analysis of Mr. Righi's report and re-assignment of his effort to other Pan American-Grace activities.

[fol. 3419]

WORK PERFORMED FOR PAN AMERICAN- GRACE AIRWAYS

1. DEPARTMENT: Public Relations
2. NAME OF EMPLOYEE: Arrigo Righi
3. POSITION: Public Relations Representative
4. WHERE EMPLOYED: New York
- 5.
6. Memorandum of work done under Panagra assignment — May 12 to July 1, 1941, for which period a detailed report was required:
 - May 12 — Meeting with Mr. De Groot to obtain material for a West Coast hotel story.
 - May 13 — Preliminary draft submitted. Preliminary contacts for distribution.
 - May 14 — Redrafting of story on basis of Mr. De Groot's corrections.

May 15 —Obtained pictures and story of arrival Peruvian Ambassador in London. Doctor Renavides. Air-mailed this material to Panagra, Lima.

May 16-20—As instructed, made direct presentation of West Coast hotel story through personal call and telephone to the following:

"Travel"
 "Hotel Bulletin"
 "Travel Agent"
 "World Telegram"
 "Chicago Daily News"

May 20 —First drafted special travel story for N. Y. Herald-Tribune. Mr. Dunlap, Travel Editor for this newspaper, wanted to make it into a general Latin American story. Following up your conversation with him, he agreed to confine the story to Panagra. This story was prepared and appeared on Sunday, June 1st.

May 23 —Interviewed Mr. De Groot to secure material for "New Horizons."

May 26 —Requested biographical story on President Roig of Panagra.

[fol. 3420]

May 27-29—Obtained a clearance for this story and called on Grace & Co. to obtain details.

June 2 —Contacted Captain Harris on Panagra's Bolivian development. Prepared tentative text for possible release.

June 3 —Contacted Panagra for further details re: Roig sketch.

June 4 —Continued efforts to obtain detailed material Bolivian story. Held conversations with U. P. and other press agencies, holding them off pending clearance.

- June 5 —Interviewed George Smith from B. A. to obtain "personal" material for Panagra sports story. Also for "New Horizons." Tentatively drafted skiing story in this connection. Wrote piece "Motoring on West Coast" for "New York Motorists."
- June 6 —Prepared special story for "New Horizons" to appear in June number with illustrations.
- June 10-14—Prepared various short items "New Horizons" Mannix picture, etc.
- June 17. —Held long conversation Captain Harris and collected statistical material, partly from Mr. De Groot, for Washington news services.
- June 18 —Obtained Panagra list for distribution President Tripp's lecture.
- June 19 —Assembled statistical material for general "Development" story based on Panagra's first quarter operations.
- June 23-25—Drafted preliminary biographical story for "Atlanta Journal" on James W. Spratlin, Panagra Communications Superintendent.
- June 26 —Discussed with Captain Harris details American Aviation Daily report on Bolivian developments. With Mr. De Groot planned story on new Quito hotel facilities.
- June 27 —Obtained statistics for American Auto Association, Washington, D. C. Having collected data from Mr. De Groot, began drafting release on third quarter Panagra operations.
- June 30 —Personally followed through on distribution of the two resulting press releases —Progress and Trade Trends.

[fol. 3421]

WORK PERFORMED FOR PAN AMERICAN
GRACE AIRWAYS

1. DEPARTMENT: Public Relations
2. NAME OF EMPLOYEE: Francis Walton
3. POSITION: Assistant Director of Public Relations
4. WHERE EMPLOYED: New York
- 5.
6. (a) Help given on publication of release on Ecuadorian service. Wrote draft of final release issued by Mr. Roig.
- (b) Tracked down source of erroneous report that CAB had denied Bolivian application. This story was originally carried by wire services out of Washington and required considerable checking. Conferred with wire services on matter of issuing correction.
- (c) Conferred with Captain Harris relative to gathering and preparing annual report of Pan American-Grace activities for 1940. Considerable time consumed in research on this subject before it was decided that desired objectives would not be achieved by publication of such a report.
- (d) Carried forward plans for regular and continuous distribution of news of Pan-Grace personnel in the foreign field for the press of their home towns.
- (e) Once-a-month gathering, writing and editing of Pan American-Grace activities for the System news magazine.
- (f) Directed the national distribution of pictures when forwarded directly to this office from the Lima office of Pan American-Grace Airways.

3510

[fol. 3422]

WORK PERFORMED FOR PAN-AMERICAN
GRACE AIRWAYS

1. DEPARTMENT: Public Relations
2. NAME OF EMPLOYEE: John Miller
3. POSITION: Pan American Photographic Service.
4. WHERE EMPLOYED: New York
- 5.
6. In 1941 to date, either at the direct request of Pan American-Grace Airways or from outside agencies—but to the obvious benefit of that line—the Public Relations Department has produced and supplied copies of the following pictures:

[fol. 3423]

PAN-AMERICAN WORLD AIRWAYS, INC. EXHIBIT 369

CABLE ADDRESS "PANAGRA"

PAN-AMERICAN-GRACE AIRWAYS, INC.
13 EAST 42ND STREET, NEW YORK, N. Y.

Letter No. 1104

SUBJECT INTERLINE AGREEMENT

Lima, September 26th 1941

Pan American Airways, Inc.
NEW YORK

Attention: Mr. R. C. Lounsbury

For your information Grace Line offices on the west coast for some reason are not permitted to endorse the unused value of tickets to Panagra as outlined in Bulletin #720, page two last paragraph. It appears that the reason for this is that Grace Line offices are not allowed to make refunds without first consulting the issuing office.

Will you please take this matter up with Grace Line and endeavour to have this matter clarified as we feel that both carriers should authorize their offices to endorse the value of tickets over to each other.

I might add, that both Grace Line and Panagra have been given a black eye more than once by passengers when after deciding to change their reservations they have found out that Grace Line will not endorse their tickets to Panagra.

J. E. Mahfield
General Sales Manager

JEM:lma.

cc: SAGO S R

[fol. 3424]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 370

No. 6037 Pyl.

NEW YORK COPY

TRAFFIC

Limn, December 19, 1941

PANAGRA
NEW YORK.

Attention: Mr. H. J. Rugg

Your P 485.

We have been working on the report requested in your letter No. 241 and will endeavor to forward same to you by next Wednesday's plane, but please appreciate the fact, in order to give you the information which you desire, we must carefully study thousands of reservation messages.

I fully realize the importance of promptly sending you accurate information, but to do so means putting both Ribeiro and Jones full time on this job. This was not possible until recently as both men were out on the line including myself. We are, however, now working hard on this job.

I am of the opinion we can furnish you with some very valuable information based upon events dating from December 7th of this year. In fact, it is quite possible we will be able to prove our point by preparing a supplementary report for the period December 7th to date, but I feel it may be a hard job to do that based on the six month's report.

I make this statement without having yet completed the report you asked for, therefore, I may be wrong in my above calculation. If, however, you will read over my letter P-5269 of March 1st., 1941 on this same subject you will see that even early in the year our line was saturated and we could neither receive from or give to Panair much more business.

Before closing, I note your report on southbound traffic was based wholly upon passengers carried and refused. I might mention, mail and express loads are responsible to a very large extent for reduced number of seats available over our bottle neck and so I think this should be born in mind when studying any question concerning the use of payload and amount of payload available for passengers.

JM

J. E. Muhlfield, GSM.

JEM DVC

cc: SAGO R-S

NY(2)

[fol. 3425]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 37F

FIFTH TRIP

NEW YORK.

January 29, 1942.

Pan American-Grace Airways, Inc.,

South American General Office,

LIMA.

Attention: Mr. T. J. Kirkland

With further reference to my 795 P of January 22nd, on the subject of the Fifth Trip, attached herewith please

find copy of the letter I have written Mr. Grayson which is self-explanatory.

You will note that the attached schedule does not show all of the Panagra operations. Mr. Grayson has a form similar to the one shown herein which he utilizes for simplicity in his own office in order to avoid the additional complication of showing all the voluntary operations. Consequently this schedule was drawn up in the form desired by him rather than in the form we require for our own operating information.

Panair are still struggling with the Post Office to secure authorization for their fourth trip with the 307 between Miami and Balboa. They now anticipate that this change will occur in any event not later than February 14th, and probably February 7th. Mr. Grayson has told me that he believes that he will be able to give us clearance on our proposed fifth trip operation, even if Panair do not institute their additional Boeing operations, since he realizes the advantages to the public probably outweigh the disadvantages to the Post Office in the one day delay of mail delivery from the United States to La Paz and the other Diagonal points as far as Cordoba, if no additional direct service to and from the United States is furnished by Pan American. Consequently it is in order for you to proceed with your plans to make the schedule changes we have discussed and we will cable you as soon as we, ourselves, have definite clearance from Washington, in order that you may institute suitable publicity in all countries with regard to the additional services and the schedule changes.

/s/ H. R. HARRIS

H. R. Harris.

HRH Q

Enc.

[fol. 3426]

PAN-AMERICAN WORLD AIRWAYS, INC. EXHIBIT 372

SANTIAGO, 24th September, 1942.

[Handwritten notation—RS 5148. P.]

[Stamp—Received by Air Mail—Oct 6 1942—American-Grace Airways, Inc.]

Messrs
South American General Office,
LIMA—PERU

Attention Mr. J. H. Nelowet
South American Comptroller.

Dear Sirs,

PANAGRA FINANCIAL CONTROL.

We are in receipt of your letter Private 14 of 5th September, on the above named subject in which you refer to a conversation you had with Mr Vidal, and from which you mention that during Mr Simon's recent visit to New York, he had discussed with Mr Vidal the advisability of having Mr Jorge Raby assigned as Financial Controller over all commitments and expenditures of the Panagra in Chile, and the best means by which Mr Raby would be in a position to exercise this control in due form.

There is no doubt that Mr Raby would be a very adequate and competent person to take charge of these functions, but on this matter there must have been a slight misunderstanding on the conversation which Mr. Vidal had with Mr. Simon.

Mr Simon informs us that he discussed only in general with Mr Vidal on the advisability of having some responsible party connected with our agency in Santiago, assigned to control Panagra expenditures throughout all Chile, and that he agreed with this general idea. On these lines we also received a letter from Mr Vidal, dated 10th July, which we enclose in copy for your information.

In answer to Mr Vidal's letter and in accordance with Mr Simon's conversation above referred to, we gave Mr

Guillermo Smith, Accountant of Panagra in our Santiago Agency, whose general competence you know as he has worked in Lima some time, special authority to control all expenses, and to report on same directly to the General Management to whom in the future he would be directly responsible. Mr Smith's salary was raised on taking over these new functions, and an assistant has been named to help in his ordinary duties as accountant.

We enclose a copy of the memorandum dated 27th August, addressed to Mr Guillermo Smith informing him of his new appointment, and of the manner in which we understand this should be carried out.

Any doubt which might be encountered by Mr Smith in the carrying out of his duties, would be consulted with Mr Raby in his capacity as Assistant Controller of the Company, but it is absolutely impossible for Mr Raby to take over this post.

The efficient control of Panagra in the manner outlined in your letter No 14, is a full time job and Mr Raby's time is dedicated to the financial control of all Grace & Cia. (Chile) S.A., activities in Chile, as well as to the study [fol. 3427] of new tax laws, preparation of tax returns, dividend estimates, bi-yearly audit reports of all factories and agencies, general exchange and currency position, etc. This enumeration by itself forecloses any possibility of adding more work to Mr Raby. Apart from the above mentioned duties, he has to travel all over the country in connection with his work.

The volume of detailed accountancy work done by the Santiago office for Panagra Lima, is enormous and very specialized, as it has to follow certain pre-determined formulae and plans laid out by the Lima office. We feel, therefore, that to be able to understand and control such an accountancy, it must be handled by a man thoroughly conversant with Panagra work, besides which various Panagra Departments usually receive instructions directly from their respective department heads in Lima, and frequently act on same without consulting the Agency.

3516

Similarly the maintenance, communication and publicity departments issue instructions directly to their corresponding department heads in Santiago, Antofagasta, Arica, regarding purchases, personnel and other routine matters. It is because of this that we feel that Panagra should have their Controller, duly assisted who would act as a coordinator between the various Panagra Departments in Lima and the local Agency.

We feel that Smith is a first class employee and is thoroughly familiar with Panagra accounts and other routine matters. He may not as yet have the status that Lima and New York seem to desire for this job, but as far as our present personnel disponibilities in Santiago allow us, we feel that it is the best approach to the solution desired by New York and yourselves.

We would very much appreciate your comments on this subject:

Yours very truly,

p.p. GRACE & CIA. (CHILE) S. A.

CONSIGNEES

PAN AMERICAN GRACE AIRWAYS INC.

C. Manuel Pereira

CMP/VF.

2 Encl.

[fol. 3428]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 373

[Stamp—Received by Air Mail—Dec 28 1942 Pan American-Grace Airways, Inc.—Dist. No.]

193.

PRIVATE

NEW YORK COPY

PAN AMERICAN-GRACE AIRWAYS INC.

SOUTH AMERICAN GENERAL OFFICE

LIMA, PERU

OFFICE SPACE ANTOFAGASTA

LIMA, December 15th, 1942.

Grace & Cia., (Chile)
 Agents for Panagra,
 SANTIAGO.

Att: C. M. Pereira.

As you know, the present office site in Antofagasta is not quite satisfactory for the reason that the Panagra section is located practically on the docks and actually in a warehouse. When I was in Antofagasta the other day, I spoke to your Manager about the possibility of moving the Panagra section to the International Machinery Company and it developed that Mr. Berger and I spoke with the Manager of IMACO and all concerned endorsed the idea.

It was pointed out by Mr. Berger that he was pressed for space in his present office and for that reason and also because of the better location provided by International, he was in favour of transferring Panagra section into the above new quarters. The Manager of the International also favoured the idea because they now have space which is not being occupied and from a business angle it would also be advantageous because Panagra customers who are also customers of IMACO would be directed to the same building where their name is prominently on display. In other words, it would be a good advertisement for them.

Mr. Berger will be writing you on the above subject and Mr. Salsilli upon his return to Santiago will take this matter up with you in further detail. We have already drawn floor plans as per copy attached, and I would greatly appreciate if you would give this matter your consideration.

One advantage of the plan of course is that the Panagra section would not be located outside of the Grace organization which conforms strictly to the Grace policy laid down by New York and of course the advantages of having an attractive sales office are fairly obvious.

/s/ J. E. MUEHLELD

J. E. Muhlfeld,

General Sales Manager.

JEM EVB

cc SAGO R-S

NEW YORK (2)

[fol. 3429]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 374

(Original misplaced)

January 27, 1943

MEMORANDUM TO Mr. O. G. Balz

TRIP TO SOUTH AMERICA

You are proceeding to South America, leaving here on or about February 1, for the express purpose of assisting the Lima organization in connection with the following problems:

1. New system of accounts becoming effective as of January 1, 1943.
2. 1943 budget and its effect upon our net earnings for the year 1943.
3. Placing on Panagra payroll of such agency personnel as are handling exclusively Panagra work, retroactive to January 1, 1943.

4. Audit of agency expenses at Lima (including Sago expenses) and points south, the territory north of Lima having been covered in your last trip.
5. Prompt settlement of insurance claims in connection with last week's accident in Peru.
6. Miscellaneous.

Herewith is a brief summary of my views:

New system of accounts

Every attempt should be made to have the 1942 audit by Price Waterhouse and the final closing of the Lima books completed at the earliest possible moment bearing in mind that, for tax purposes here, we must have by March 15 a fairly accurate idea of what our net earnings for the year 1942 have been.

So far as the 1943 monthly accounts are concerned, under the new system established by the CAB every attempt should be made to dispatch January not later than March 15, and subsequent months at 20-day intervals until the accounts are on schedule. In this connection it is important that complete accruals be made at the end of each month starting with January, as otherwise the Lima figures are likely to prove misleading.

1943 Budget

We expect to hear shortly from Mr. Kirkland by cable as to the monthly total of the proposed 1943 budget, including depreciation and obsolescence reserves. Due to pressure of other urgent matters the budget itself has not come forward, and it is expected that it will be mailed from Lima during the early part of February. You should discuss thoroughly with Mr. Kirkland the relationship between the local budget and the company's earnings as shown by the New York books, and render all possible assistance in connection with this important problem.

Agency personnel

For your information, the instructions going forward from Grace headquarters in New York to the various agencies along the West Coast are as follows:

"1943 It is the intention to transfer to the Panagra payroll the salaries of the Grace employees devoting 100% of their time to Panagra work whether in connection with plane calls or otherwise, although the individuals in question remain under the general direction and supervision of Grace. This is subject, of course, to Panagra's confirmation that the full time employment of such personnel is necessary. A Panagra representative, probably Mr. Batz, will leave shortly on a trip over the line during which he will take up with the Grace agents direct the details of this transfer which will give all concerned an opportunity to work out any special problems presented by the plan to complete mutual satisfaction."

It will be necessary for you to stop long enough at each [fol. 3431] agency to determine what employees devote 100% of their time to Panagra work and to form an opinion as to whether all such employees appear necessary. When there is any doubt as to whether an employee devotes 100% of his time to Panagra work, such employee is not eligible to be transferred to the Panagra payroll. You should be in constant touch with Mr. Kirkland and the Sago organization in connection with the foregoing and complete arrangements at the earliest possible moment to place the personnel involved on the Panagra payroll retroactive to January 1, 1943.

The following questions may be expected to arise:

- (a) liability under social laws
- (b) earned vacations
- (c) traveling expenses
- (d) life insurance

It has been agreed here that Panagra will not take over any liability of any consequence. In other words, Grace's liability to employees in connection with years of service is to be paid over to Panagra, except in countries where payments are currently made into Government banks. Grace will grant or otherwise liquidate earned vacations.

Any travel expenses due foreign employees will be the subject of a special study by you. Premiums on life insurance policies issued under the law will be paid by Panagra as they fall due after January 1, 1943.

Group insurance should be offered without delay to all employees taken over by Panagra.

Audit of agency expenses

Unless the agency expenses south of Lima have been audited on the spot by someone connected with the Sago organization before you are ready to start on such a trip, it appears desirable that you take over this work in order to relieve the congestion at Sago headquarters. The audit [fol. 3432] of the Lima expenses, including Sago, should be conducted by you in any event. As customary, a written report addressed to Mr. Kirkland with copies to all concerned will be required from each point and it should be written before leaving the agency involved.

Insurance settlements

We are particularly anxious that Group Insurance payments and other liquidations in connection with the company employees who lost their lives last week be handled as expeditiously as possible. The New York underwriters are prepared to effect payment as soon as all required information is received from Lima both as to Group Insurance and Voluntary compensation coverage. We have cabled Lima today in this connection.

With respect to claims resulting from the death of passengers, these cannot be settled as rapidly, but an attempt should be made to avoid unnecessary delays.

G. Vidal

GV:CFE

CC: DCampbell

TJKirkland

JHNewel

JSWOODbridge

[fol. 3433]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 375

to: Mr. Trippe
Mr. Friendly

February 21, 1946

Mr. Harold J. Roig, President
Pan American Grace Airways, Inc.
135 East 42nd Street
New York, New York

Dear Harold:

We have discussed the matter of your proposed operation of the two Pan American Grace Constellations with Mr. Shannon and Mr. Vidal on the basis of Mr. Shannon's memorandum to me of February 16th. This matter was referred to our Executive Committee meeting on February 19th. The Committee felt that the operation as outlined would result in excessive cost to Pan American Grace as well as providing uneconomical utilization of this equipment.

I have been requested by the Committee to submit to you a plan whereby Pan American Airways, Inc. would be willing to contribute two Constellation aircraft to a pool to be formed with Pan American Grace's two Constellation aircraft making a total of four aircraft of this type. With this fleet, an efficient operation could be conducted from the Miami base serving both the East and West coasts of South America by providing a daily service from Miami to Lima and a three times weekly service from Miami to Rio. This would result in a utilization of a little over nine hours per day per unit which could be still further improved, as for example, through a second daily service between Miami and Balboa, if warranted, or a daily Miami-Barranquilla trip. In support of our plan, I attach a memorandum outlining in detail the economic disadvantages of the proposal submitted in Mr. Shannon's memorandum and justifying in every respect our suggestion that a pool of equipment be formed to increase the utilization of the equipment to a satisfactory point, where the cost per mile will

be comparable to that which we expect to obtain in our Constellation operations elsewhere.

I need hardly elaborate on the point that a through service from Miami to Lima, such as would be provided by the proposed equipment interchange, would be highly desirable from the standpoint of the traveling and shipping public.

We are confident that our proposal is entirely practical and in the interest of Pan American Grace Airways, as well as the public interest. If you will kindly advise me that you concur in principle, I shall immediately take the necessary steps to coordinate this program, and put it into effect at the earliest possible moment.

Very truly yours,

Original signed by
Howard B. Dean
Howard B. Dean
Vice President

Attachment

PAA-2898
12/21/54 mfr

[fol. 3434]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 376

September 2, 1946

Braniff Airways, Inc.
Mr. Chas. E. Beard, Vice President
Love Field
Dallas 9, Texas

Dear Mr. Beard:

This will acknowledge receipt of your letter of August 30th requesting certain airport and route facilities operated by Pan American Airways and its affiliated companies for a survey flight which is scheduled to depart Brownsville September 1st enroute to Rio de Janeiro, via Balboa, Bogota, Quito, and Lima. This is to advise that Pan Amer

ican Airways will agree to furnish the necessary airport facilities over your certificated route at those stations operated by Pan American. With respect to the affiliated companies, I will endeavor to immediately communicate with them with respect to making the airport facilities under their jurisdiction available for this first survey flight, and will advise you of their decision.

The services to be rendered at the airports operated by Pan American Airways or its affiliates, Avianca and Panair do Brasil, subject to approval, in the case of the latter two companies, will include ramp facilities, refueling (where available by PAA or its affiliates), communications (including flight guard, position reports, arrival and departure messages, and the use of navigational aids along the route) and meteorology facilities, including terminal weather and route forecasts.

The only airports in the above itinerary where the facilities are actually available by PAA are Brownsville and Balboa, as the balance are under the jurisdiction of the affiliated companies. With respect to the airports operated by Panagra, it is suggested that you address a letter directly to that company, in care of their New York Office, which I will agree to transmit directly to them for their decision, in order to expedite the matter.

It is understood that, upon your return from this first survey flight you will initiate negotiations with this office as to the specific ground services which are to be rendered Braniff Airways at the airports operated by Pan American, and the rates to be charged, beginning with Braniff's first familiarization and training flight. The rates for this first survey flight will be determined in accordance with PAA's scheduled charges established for itinerant aircraft at those points which are controlled by Pan American.

Very truly yours

PAN AMERICAN AIRWAYS, INC.

Original signed by W. L. Morrison
W. L. Morrison, Vice President
Latin American Division

Vice President & General Counsel - NYC
 Vice President - Dean - NYC
 Division Manager - MIA
 Division Operations Manager - MIA
 Division Traffic Manager - MIA
 Division Accountant - MIA

[fol. 3435]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 377

July 8, 1954

Mr. Andrew B. Shea, President
 Pan American Grace Airways, Inc.
 7 Hanover Square
 New York, New York

Dear Andy:

Those handling our current contract renewal negotiations with the pilots have given me a copy of the National pilots' agreement which covers the reciprocal arrangement between them and Capital. I know you will be interested in looking this over.

As I mentioned, we are planning to put in the through flight between L.A. and Brazil about September 1. Traffic estimates relating to a similar through flight to the West Coast look equally attractive, and I am hoping we could start the through California West Coast service at the same time.

Our people feel that the pilot problem which we discussed can be met only through some sort of equitable reciprocal service. Also, only by a through California West Coast service can we hope to compete effectively with Canadian Pacific and the other through foreign flag services which are already planned and which will tap, not only L. S. and Canadian West Coast traffic, but through Orient traffic as well.

The problem you raised of having a chartered Pan American aircraft on the West Coast I am sure you will agree is a minor one. In recent years, nearly all American flag airlines have concluded charter agreements permitting them to

flight service. The public is educated to seeing aircraft of one carrier flying over routes of another carrier. The CAB also seems sympathetic to such arrangements which provide improved service to the public.

Sincerely,

JTT:ke

(Handwritten notation: Pl. make copies for J.C.L., H.J.F., S.F.P., Wm. C. L.A.D. all marked "Confidential.")

(fol. 3436)

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 378

July 21, 1954

MEMO TO FILES

SUBJECT: LOS ANGELES WEST COAST
THROUGH FLIGHT

Mr. Trippe is telephoning Mr. Shea today, accepting Mr. Shea's compromise offer in connection with the through flight from Los Angeles to points on Panagra's routes.

This compromise was to the effect that PAG would join in the operation of the flight providing PAA would reimburse PAG for any losses incurred after a 90 day introductory period. This arrangement would continue for a period of one year from the date on which the service is inaugurated.

Our initial offer contemplated our underwriting any losses on southbound flights only, where we would be primarily responsible for traffic development. Mr. Shea was concerned whether the Orient traffic which would use the through flight was not largely southbound immigrant traffic, and whether this would leave the northbound Panagra through flight traffic levels below the southbound. To eliminate this contingency we are underwriting the through flight in both directions for Panagra, as stipulated by Mr. Shea.

As a result of our recent meetings with Mr. Lawder, the initially agreed cost of this through flight over PAG's route would be \$2.27 per mile. Under Mr. Shea's compromise offer, revenues above this figure, if any, would accrue to PAA.

in consideration of our underwriting any revenue deficiencies below the same figure.

This arrangement will provide the through flight service from Los Angeles to points on Panagra's routes, which have been advocated by Exec. Vice Pres. Morrison, Vice Pres. Lipscomb and Exec. Vice Pres. Young as necessary for competitive reasons, with particular reference to existing and potential foreign-flag operators.

This through flight from Los Angeles to points on Panagra's routes will be conducted with PAA aircraft and PAA operating crews. Also, the future use of Panagra crews between the Canal Zone and the Continental United States will not exceed the present schedules and, furthermore, Panagra's requirements for 4 engine flight crew time in excess of that required by present Panagra schedules with 4 engine aircraft will be operated by PAA flight crews operating between Miami and Lima, until reasonable reciprocity is achieved.

[fol. 3437] The detailed time table for this through flight is being worked out by LAD Miami and will be supplied to the Head Office and PAA in the usual manner. Likewise, the opinions and recommendations of PAA officials will be obtained in Miami and New York.

This through flight is to be inaugurated during September 1954, the exact date to be fixed in consultation with PAA management.

All necessary preparations for the service, including advertising and promotional programs and material, will now be initiated.

Original signed by

John C. Leslie

John C. Leslie

cc: Vice Pres. Friendly, Legal, NY

Vice Pres. Balluder, Exec., NY

Vice Pres. Lipscomb, Traffic & Sales, NY

[fol. 3438]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 379

July 23, 1954

Mr. Andrew B. Shea, President,
Pan American-Grace Airways, Inc.
7 Hanover Square,
New York, N. Y.

Dear Andy:

In accordance with your talk with Juan, I am enclosing drafts of the papers.

I have also sent to Ken Lawder a copy of the draft of the interchange agreement but not of the two other papers. I would be glad, of course, to send him the others if you so desire.

Sincerely,

Henry J. Friendly,
Vice President and General Counsel.

[fol. 3439]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 380

COPY

August 20, 1954

MEMORANDUM TO
MR. DOUGLAS CAMPBELL

Referring to your letter of August 18th I have the following comments:

- (1) Before we get into the detailed proposal it must of course be understood that the Los Angeles Interchange will not be signed unless and until the pilot thru-flight controversy is settled as the Interchange was initially proposed as one means of arriving at such settlement.
- (2) Referring to the last paragraph quoted on page 1 I do not agree and we must insist on our draft as quoted on page 1, otherwise we would be involved in interminable arguments before adding additional flights

and our associates should be willing to rely on our judgment.

- (3) I agree to Clause 15 as quoted on page 2 including the additional paragraph as inserted by you.
- (4) I do not agree on proposal 1 on page 3 as there is no relation between the Los Angeles agreement and the Miami-Balboa agreement and there is no reason why any provisions that we consider desirable in the Los Angeles agreement should require corresponding modification in the Miami agreement. The only changes in the Miami agreement which we are prepared to accept are those contemplated in Supplement 17 as drafted by us.
- (5) I do not agree to Proposal 2 on page 3 because the measure of the quality of service rendered by either carriers would be the standard of other U. S. Flag carriers and the measure should be our own standards or those of PAA as provided in your draft clause on page 2. I consider our standard, and I am sure that PAA considers theirs, as higher than those of "other U. S. Flag carriers operating outside the continental limits of the United States."

Referring to Erwin's suggestion, we do not wish to consider any further sale of DC-4 equipment now but we will be glad to provide aircraft for the Los Angeles Interchange if Pan American is unable to do so.

A. B. S.

[fol. 5440]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 381

PAN AMERICAN-PAXAGRA
THE OVERSOUTH EXPRESS TO ARGENTINA VIA
PANAMA ECUADOR PERU CHILE

August 20, 1954

Memorandum to Mr. J. C. Leslie:

Reference the matter of the proposed Los Angeles interchange draft agreement. I enclose copy of memorandum

received today from Mr. Shea, together with copy of my note to him dated August 18th, to which his memorandum makes references.

I am, of course, available at your convenience for any further discussion of this matter which you may consider desirable.

Douglas Campbell

Douglas Campbell

[fol. 3441]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 382

(Copy of letter to Mr. A. B. Shea)

EXHIBIT 382

August 18, 1954

Dear Andy:

Leslie asked Lawder and myself to meet with him this noon to iron out the differences of view on two paragraphs in the proposed Los Angeles interchange agreement, and after considerable discussion of them I told him I would have to clear any changes with you.

1. Extension to Buenos Aires. Our draft reads:

"The through flight will terminate initially at Lima, Peru, but shall be extended to Buenos Aires, Argentina, as soon as and for such period as Panagra determines such extension to be commercially and otherwise justified."

In previous discussions during the last week or so they have taken the position that an additional phrase be added reading:

"it being understood that the through flight shall be extended to Buenos Aires before Panagra adds any other flights to Buenos Aires."

I have objected to that on the ground that, as a matter of principle, we should not make a commitment which would

bind us to take certain action at some unspecified future date, possibly under conditions which we cannot now foresee. Today they proposed some further additional words so that the entire sentence would read as follows:

"The through flight will terminate initially at Lima, Peru, but shall be extended to Buenos Aires, Argentina as soon as and for such period as Panagra determines such extension to be commercially and otherwise justified, it being understood that the through flight shall be extended to Buenos Aires before Panagra adds any other flight to Buenos Aires unless economic considerations dictate otherwise."

[fol. 3442]

2. Clause 15 covering the term of the agreement is proposed by PAA as follows:

"15. *Term*—(a) This agreement shall become effective as of the date of execution hereof, and shall continue in effect for a period of ~~one~~ (1) year thereafter and until terminated by either party upon three months' written notice given not earlier than nine months after the date of execution hereof; provided, however, that such notice may be given only in case experience over the immediately preceding six-months' period shall have demonstrated that the revenue produced on the through flight for the party giving the notice shall have been inadequate in relation to the added cost to such party of operating such flight. The respective presidents of the parties and their successors in office are hereby irrevocably authorized to give such notice in accordance with this agreement.

(b) This agreement shall be cancelled if the Civil Aeronautics Board should enter an order disapproving the same and such order should become final."

We tentatively agreed to these two paragraphs last week, but in our draft inserted an additional paragraph reading as follows:

"(b) If at any time subsequent to December 31, 1954 either party shall consider that this agreement is not

satisfactory because of failure by the other party promptly and adequately to perform any of its obligations under this agreement in such manner as to promote the fullest development of through traffic between points on the respective parties' certificated routes within the spirit and intent of this agreement; or because either party shall be of the opinion that the services performed for it by the other are not consistent with its established standards in any particular which for a substantial period of time unreasonably interferes with the efficient conduct of or the quality of service on the through flights over its routes, the complaining party may give notice to the other, stating the respect in which it considers the other party's performance to be unsatisfactory. Thereupon, the parties will negotiate in an endeavor to see whether the views of the complaining party can be met. If such negotiations shall not succeed within thirty days reference shall be had to arbitration as provided in paragraph 16(c) to determine whether the complaining party's dissatisfaction is reasonable and if so what measures should be taken to meet its views. If such arbitration determines that the complaining party's dissatisfaction is reasonable, the other party shall be bound to take the action recommended by the arbitrators and thereafter diligently proceed with same. If the other party shall fail to do so, the complaining party may thereupon cancel this agreement upon three months' notice given by its president but such right of cancellation shall not exclude any other remedy."

[fol. 3443]- Their proposal this morning under this heading was that either (1) they would accept this paragraph, but simultaneously modify the existing Through Flight Agreement to have the same wording; (2) they would be willing to incorporate in the Los Angeles through flight agreement the two corresponding paragraphs in the existing Through Flight Agreement, and that the choice of (1) or (2) is left to our preference. Under (2) the paragraphs would read as follows (after making appropriate modification with respect to maintenance):

"(b) If at any time subsequent to December 31, 1954, PAA shall consider that this agreement is not satisfactory because of failure by Panagra promptly and adequately to perform any of Panagra's obligations under this agreement (including without limitation, such matters as failure to establish the proper schedules for flights under this agreement, failure to handle flights under this agreement in such manner that the schedules shall be duly and punctually performed, failure properly to maintain and overhaul PAA's aircraft used in the service performed under this agreement, or failure to discharge the provisions of this agreement with respect to the selling and handling of traffic) in such manner as to promote the fullest development of through traffic between the continental United States and points on PAA's certificated route in South America within the spirit and intent of this agreement, PAA may give notice to Panagra stating the respect in which it considers Panagra's performance to be unsatisfactory. Thereupon PAA and Panagra will negotiate in an endeavor to see whether the views of PAA can be met. If such negotiations shall not succeed within thirty (30) days, reference shall be had to arbitration as provided in Paragraph 25 to determine whether PAA's dissatisfaction is reasonable and, if so, what measures should be taken to meet PAA's views. If such arbitration determines that PAA's dissatisfaction is reasonable, Panagra shall be bound to take the action recommended by the arbitrators and thereafter diligently proceed with the same. If Panagra shall fail to do so, PAA may thereupon cancel this agreement upon three (3) months' notice, but such right of cancellation shall not exclude any other remedy.

"(c) If at any time subsequent to December 31, 1954, Panagra shall be of the opinion that PAA's services are not consistent with recognized standards of other United States flag air carriers operating outside the continental limits of the United States in any particular which for a substantial period of time unreasonably in-

interferes with the efficient conduct of the through flights over Panagra's routes, Panagra may give notice to PAA stating the respects in which it considers such services to be unsatisfactory. PAA and Panagra will thereupon negotiate in an effort to see whether the views of Panagra can be met. If such negotiations shall not succeed within thirty (30) days, reference shall be had to arbitration as provided in paragraph 25 to determine whether Panagra's dissatisfaction is reasonable and, if so, what measures should be taken to meet Panagra's views. If such arbitration determines that Panagra's dissatisfaction is reasonable, PAA shall be bound [fol. 3444] to take the action recommended by the arbitrators and thereafter diligently proceed with the same. If PAA shall fail to do so, Panagra may thereupon cancel this agreement upon one (1) year's notice, but such right of cancellation shall not exclude any other remedy."

I would appreciate your telegraphing me your concurrence or non concurrence at your earliest convenience.

Sincerely yours,

Douglas Campbell

DC Q

cc: KALawder

[fol. 3445]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 383

V. P. & Gen. Mgr. Campbell

Panagra

NY

August 26, 1954

Vice Pres. Leslie

Executive

NY

Thank you for your note of August 26th, transmitting Mr. Shea's memo of the same date.

I need hardly say that I was taken aback by Mr. Shea's arbitrary viewpoint, and find it a cause for real regret.

What he seeks in the proposed agreement is, of course, contrary to the comparable provisions which Pan American accepted in the original Through Flight Agreement.

In view of my understanding that Mr. Shea is on vacation, with the consequent difficulty in reconciling our viewpoints directly, and in view of the competitive disadvantages to which Panagra and Pan American are exposed by any avoidable delay in concluding the Through Flight Agreement, I am willing to recommend the following solution for Mr. Trippe's approval:

1. Mr. Shea's viewpoints as to Clauses 2 and 14 will be included in the Agreement as presented for signature, subject however to the procedure outlined immediately below.

2. Within 30 days after the signing of the Agreement, Panagra and Pan American will select a mutually satisfactory arbitrator; in the event of Pan American and Panagra being unable to agree on such a person within 30 days, the President of the American Arbitration Association will be asked forthwith to appoint such an arbitrator within an additional 30 days.

3. The arbitrator so appointed will hear the views of Pan American and Panagra respectively as to Clauses 2 and 14 and decide the following questions in the light of the most equitable possible recognition of the parties' respective desires and the proper conduct of the operations contemplated by the Agreement:

(a) Should the phrase "it being understood that the through flight shall be extended to Buenos Aires before Panagra adds any other flight to Buenos Aires unless, of course, considerations dictate otherwise" or some modification thereof be included at the end of the second sentence in Clause 2?

Vol. 3446

- (b) Which of the following alternatives will be adopted?

- (i) The two paragraphs of Clause 15 here under discussion shall be included in the new Agreement in a form analogous to the Through Flight Agreement, or
- (ii) The Panagra draft of the same material shall be incorporated in the new Agreement and simultaneously amended in like manner in the Through Flight Agreement, or
- (iii) The Panagra draft shall be included in the new Agreement without any corresponding change in the Through Flight Agreement.

4. Within 7 days after receipt of arbitrator's opinion, his decision will be agreed to by Pan American and Panagra as amendments of the Agreement initially signed.

It seems to me that the above course would serve the requirements of both Pan American and Panagra and would be more than equitable to Panagra.

As to Mr. Shea's comments in the first numbered paragraph of his memorandum, it is also our view that the proposed Agreement will be helpful in connection with the pilot Through Flight controversy, but viewed independently it would still be of obvious advantage to the competitive positions of Pan American and Panagra; and it must be considered in both respects.

Original Signed By

JOHN C. LESLIE
John C. Leslie

by: Pres. Trippe, Exec., NY
Vice Pres. Gledhill, Exec., NY
Mr. John C. Pirie, Legal, NY
Vice Pres. Balluder, Exec., NY

[fol. 3447]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 384

September 9, 1954

Memorandum to: Mr. A. B. Shea
 7 Hanover Square
 New York, New York

Dear Andy:

I am sure you have received a copy of my memorandum of August 26th to Doug Campbell, but attach one for your convenience.

As I am sure you know, Pan American has been making plans for a through flight from Los Angeles to Rio and Sao Paulo via Panama and Caracas. It is presently contemplated that this service will be inaugurated November 1, 1954. I believe it would be much to Panagra's interest if the through flight from Los Angeles to Lima were to be inaugurated concurrently. During July we seemed to be making excellent progress on the Pan American Panagra agreement relating to this service, but in recent weeks we seem, unfortunately, to have bogged down. My memo was intended to cure the delay and I hope it has had your favorable consideration. If we are to meet the closing of the November 1st timetables, we cannot afford to lose time in finalizing this agreement, and we should proceed to do this even though the problem relating to the flying by Panagra pilots over our Miami-Panama route may not have been completely resolved.

John C. Leslie

cc: Vice Pres. & Gen. Mgr. Douglas Campbell, Panagra, NY

cc: Vice Pres. Ballender, Exec., NY

Vice Pres. Friendly, Legal, NY

Exec. Vice Pres. Morrison, LAD, Miami

[fol. 3448]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 385

September 15, 1954

Memorandum to: Mr. John C. Leslie
 135 East 42 Street
 New York 17, N. Y.

Dear John:

I received your memorandum of September 9th referring to your previous memorandum of August 26th to Douglas Campbell. I regret that you were taken aback by my "arbitrary viewpoint". I do not, of course, consider my viewpoint to be arbitrary.

I feel that it would be unwise and probably unproductive to adopt the arbitration provisions which you suggest and I see no necessity for the adoption of this procedure.

While I recognize, as you do, the benefit to Pan American and Panagra, from a competitive viewpoint, of the initiation of the L. A. - Lima Through Flight we certainly cannot undertake the operation in the manner contemplated unless and until the pilot through flight controversy is settled. This situation has now been complicated, as you undoubtedly are aware, by the position taken by the Panagra pilots.

Andrew B. Shea

cc: Messrs. Trippe, Goddhill, Pirie, Balluer, Campbell

[fol. 3449]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 386

September 16, 1954

Memorandum to: Mr. A. B. Shea
 7 Hanover Square
 New York, New York

Dear Andy:

This will acknowledge your memorandum of September 15th concerning the Los Angeles Through Flight.

So far as concerns the agreement relative to this flight, if you are unwilling to have the few points in dispute settled by arbitration, I would think we should make an effort to reconcile our points of view in conference. However, further efforts in this direction would be fruitless under present circumstances in view of your opinion that the operation cannot be undertaken unless and until the pilot controversy concerning the Miami through flights is completely resolved.

I do not share your opinion on the latter point. The small amount of flying which Pan American flight crews would perform once weekly over Panagra's route from Panama to Lima under the Los Angeles Through Flight agreement could only be helpful in resolving the pilot controversy over the large amount of flying by Panagra personnel on PAA's Panama-Miami route. Panagra should not be deprived in the meanwhile of the traffic advantages of the Los Angeles Through Flight.

John C. Leslie

cc: Messrs. Campbell

Tripp

Gledhill

Friendly

Bullader

[fol. 3450]

PAN-AMERICAN WORLD AIRWAYS, INC. EXHIBIT 387

September 27, 1954

Memorandum to: Mr. A. B. Silva
7 Hanover Square
New York, New York

Dear Andy:

With further reference to my memoranda to you of September 29th and September 16th, the will confirm that Pan American's November 1st timetable, which I have now gone to press, will show a once weekly through flight from Los Angeles to Rio and Sao Paulo via Panama and Caracas.

We very much regret that, due to your unwillingness to finalize the Los Angeles Through Flight Agreement until there is a settlement of the controversy between the Pan American and Panagra pilots over the Miami route, it has not been possible to show a Los Angeles-Lima Through Flight via Panama. We certainly hope this can be done in the December 1st timetables.

Original Signed By
JOHN C. LESLIE
John C. Leslie

cc: Messrs. Campbell
Trippe
Gledhill
Friendly
Balluder

[fol. 3451]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 388

October 4, 1954

Memorandum to: Mr. John C. Leslie
135 East 42 Street
New York 17, N. Y.

Dear John,

Reference is made to your memoranda to me dated September 16th and September 27th. As pointed out in my memorandum to you of September 15th that while I recognize, as you do, the benefits to both PAA and Panagra, from a competitive viewpoint, of a Los Angeles-Lima Through Flight, I am still of the opinion that the initiation of such an operation prior to a settlement of the pilot Through Flight controversy would only complicate that issue.

Frankly, in view of the importance which you give to traffic between the West Coast of the United States and the West Coast of South America, a viewpoint in which we fully concur, I was very surprised to learn that in your

September 26th schedule you have completely eliminated the connections at Panama between Panagra's tourist flights and PAA's Panama Los Angeles flights and this without any previous advice to or consultation with Panagra, contrary to the understanding reached some months ago on schedule coordination.

I would further like to point out that while the traffic figures prepared by Mr. Lipscomb indicated that roughly an estimated additional thirty five passengers per week in both directions would be generated by a Los Angeles Lima Through Flight I again express the observation that in my (fol. 3452) opinion this is a most optimistic estimate particularly because, as I have previously mentioned to Mr. Trippe, a Through Flight between the West Coast of South America and the West Coast of the United States to be of real benefit to Panagra should include a Mexico City stop to enable Panagra to meet effectively the Lima-Mexico City competition from CPAL. CPAL during the last month has averaged approximately fourteen passengers per flight in both directions between Lima and Mexico City.

Under the circumstances it is most difficult for me to see the justification for Panagra to assume the financial burden of an annual expense of approximately \$370,000 of which \$120,000 is for charter hire of PAA aircraft under the PAA proposal for a Los Angeles Lima Through Flight. However, as a fair and equitable compromise, I would be willing to have Panagra consider a Lima Los Angeles Through Flight, if, in order to reduce the added cost to Panagra of this additional flying, PAA would be willing to consider a one-weekly Through Flight between Lima and Los Angeles using Panagra aircraft and with Panagra crews flying the sectors Lima Panama and PAA crews the Panama Los Angeles sectors. This assumes we can reconcile the different points of view on items still at issue in the August 18th draft of the proposed Through Flight Agreement.

Andrew B. Shea

[fol. 3453]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 389

October 21, 1954

Memorandum to: Mr Andrew Shea
7 Hanover Square
New York, N. Y.

Dear Andy:

Thank you for your memorandum of October 4, concerning which I comment as follows:

1. I fear that you have not been fully informed concerning the matter of schedule coordination mentioned in your second paragraph. The schedule patterns to be effective September 26 were discussed in detail by the Pan American and Panagra officials in Miami, and there was agreement concerning the timetable to be used for the Los Angeles/Lima Through Flight, if inaugurated. Pan American hoped until the last minute that Panagra would agree to this flight and, therefore, went to press with its September 26 schedules constructed in such fashion as to permit its inauguration without delay or confusion. Specifically, one of the Pan American 515 flights arrives Balboa on Wednesdays at 1600 and is designed to leave for Lima just one hour later, as tentatively agreed with the Panagra officials in Miami.

A further re-arrangement and improvement of Pan American's trunkline schedules in the Latin-American Division will become effective on December 1, 1954. At this time, a similar provision will be made for a Los Angeles/Lima Through Flight transiting Balboa on Mondays; alternatively, southbound PA 515 will have a 6-hour 15-minute connection with PG 333 on Mondays; northbound, in the absence of a through flight, PG 332 will have a 2-hour 15-minute connection with PA 515 on Tuesdays and Thursdays.

Copies of these Pan American December schedules were forwarded to Mr. Kirkland some time ago, and we understand that he has been in Lima endeavoring to work out Panagra schedule changes which would further improve connections between the two carriers.

In this connection, the officials of Pan American's Latin American Division have for some time felt that [fol. 3454] there could and should be more give and take on Panagra's part in the matter of schedule adjustments. I know that Panagra has its problems, but Pan American has them also. The need for co-operation becomes even more acute if coordination with Pan American's trans-pacific service is to be provided - the latter being obviously to the advantage of Panagra whether on through flights or connecting flights.

2. While there is no doubt that both Panagra and Pan American would benefit if Pan American were certificated to call at Mexico City between Los Angeles and Panama, I am sure you understand the facts. First, Pan American does not hold such a certificate. Second, Western Air Lines was awarded such a certificate, the present status of which is uncertain. Third, the United States Government has made repeated efforts to negotiate an air transport agreement with Mexico, but so far without success; the question of any U. S. flag carrier operating the Los Angeles-Mexico City sector has been one of the major problems in all of these negotiations.

It remains to be seen whether or when a Pan American application for this service would seem likely to prosper. At best this is a long time off, and the possibility of accomplishing this in the future should not prevent our doing something in the interests of both companies in the present.

3. While I appreciate your suggestion that you would be willing to have Panagra consider a Lima-Los Angeles Through Flight, the conditions which you

now attach would not be acceptable to Pan American and, in my opinion, rest on false premises.

Your first condition is that Panagra aircraft be used in order to reduce Panagra's expenses for charter hire. As you know, Pan American believes that Panagra's fleet is somewhat in excess of current requirements. While supplying aircraft for the Panama/Los Angeles route would improve Panagra's current utilization, this is by no means the only or necessarily the best solution for Panagra. The use of Pan American aircraft over the Los Angeles/Lima route would represent a very small measure of reciprocity for the return which Panagra has been realizing through the use of Panagra's aircraft over Pan American's Canal Zone/Miami route. Second, the so-[fol. 3455] called pilot controversy, concerning which the Pan American pilots feel very strongly, can best be resolved by taking some tangible steps in the direction of flight time reciprocity between the two pilot groups, as you have yourself recognized. This requires that any Los Angeles/Lima Through Flight employ Pan American flight crews all the way to Lima. For Pan American to enter into a new interchange with Panagra which did nothing to solve the problem would, in my opinion, have serious adverse consequences to both companies.

John C. Leslie

cc: V.P. Balluder
V.P. Friendly
V.P. Morrison, MIA
Treasurer Ferguson

[fol. 3456]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 390

Minutes of Regular Meeting of the Board of Directors of Pan American Grace Airways, Inc. held at the office of Pan American World Airways, Inc., 135 East 42nd Street, New York, N. Y. on the 2nd day of November, 1955 at 4:00 o'clock in the afternoon.

PRESENT:

Messrs.

Erwin Balluder
Henry J. Friendly
Felix E. Larkin
John C. Leslie

W. L. Morrison
H. J. Roig
Andrew B. Shea

being a quorum of the Board.

Mr. Shea, President, presided. Mr. Cogswell, Secretary, acted as such.

Minutes of the Regular Meeting of October 5, 1955 were read and approved.

The following financial data was submitted and discussed:

Comparison of Actual Results with Budget for nine months ended September 30, 1955

Comparative Statement of Profit and Loss for September 1955-1954 and nine months ended September 30, 1955-1954

Comparative Statement of Profit and Loss for Quarter ended September 30, 1955-1954 and nine months ended September 30, 1955-1954

Statement of Cash Position as at September 30, 1955 compared to Previous Periods

Cash Position forecast for year ending September 30, 1956

The following capital appropriation was reported:

122(M) Installation of sequence gate and throttle reverse lock on 4 DC-6B air- craft	\$5,643
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The following capital appropriations were authorized:

123(M) Initial Modification to DC-6B N-65260	\$35,813
124(M) Modification of DC-3A Aircraft N-28335	\$76,791

[fol. 3457] The President reported on movement of passengers under the National Interchange Agreement for the months of September and October.

The President stated that after full investigation of the relative merits of B-707 and DC-8 projects, he was prepared to recommend the purchase of five DC-8 aircraft at an estimated cost, including cost of spare engines and parts, of approximately \$32,000,000. Mr. Leslie inquired as to the consideration which had been given to the B-707, stressing particularly the earlier inauguration of jet service which this airplane would make possible, and expressing his tentative opinion that the 707 was better adapted to Panagra's route structure. It was voted that the President and Mr. Balluder or Mr. Leslie pursue the matter with all possible despatch and that the President submit final recommendation to the Board for action as promptly as possible.

There was presented to the meeting the form of six non-interest bearing promissory notes, to be dated November 28, 1955, of this Corporation to National Airlines, Incorporated, pursuant to the provisions of Section 4.6 of the Financial Supplement to the Interchange Agreement between this Corporation, National Airlines, Incorporated and Pan American World Airways, Inc., five of said notes being each in the principal amount of \$633,333.33 and one thereof being in the principal amount of \$633,333.35, and payable as therein provided, and a counterpart of the Agreement, also to be dated November 28, 1955, between this Corpora-

tion, National Airlines, Incorporated and Chemical Corn Exchange Bank, Bankers Trust Company, The Chase Manhattan Bank, The Hanover Bank, The First National City [fol. 3458] Bank of New York, and The New York Trust Company, whereby, among other things, in order to induce each of said banks to purchase from National Airlines, Incorporated one of said notes, this Corporation makes certain agreements and incurs certain obligations.

On motion duly made and seconded, it was unanimously

RESOLVED that the President or any Vice President be and he hereby is authorized to execute and deliver to National Airlines, Incorporated six non-interest bearing promissory notes in the form presented to this meeting, five of said notes being each in the principal amount of \$633,333.33 and one thereof being in the principal amount of \$633,333.35, payable in the manner and upon the terms provided therein, pursuant to the provisions of Section 16 of the Financial Supplement to the Interchange Agreement between this Corporation, National Airlines, Incorporated and Pan American World Airways, Inc., and to execute and deliver in the name and on behalf of this Corporation a certain Agreement as presented to this meeting, to be dated November 28, 1955, with National Airlines, Incorporated and Chemical Corn Exchange Bank, Bankers Trust Company, The Chase Manhattan Bank, The Hanover Bank, The First National City Bank of New York, and The New York Trust Company whereby, among other things, this Corporation undertakes certain obligations with respect to the prepayment of the principal amount of said promissory notes, together with interest thereon as agreed to be paid by National Airlines, Incorporated, or the issue and exchange, in the manner set forth in said Agreement, for said promissory notes and the notes then outstanding under the Credit Agreement dated June 16, 1954 between this Corporation and certain banks, of a principal amount of Notes, to be issued under and pursuant to the provisions of the Credit Agreement, equal to the sum of said promissory notes and said then outstanding Notes,

agrees to a reduction in the commitments of said banks under said Credit Agreement in an amount equal to the aggregate principal amount of said promissory notes, and undertakes to make certain prepayments from time to time on the Notes presently outstanding under said Credit Agreement.

RESOLVED FURTHER that the proper officers of this Corporation be and each of them hereby is authorized and directed to do and perform all such other acts [fol. 3459] and things and to execute and deliver all such instruments and documents as may be required to carry out the purposes of the foregoing resolution and the terms and provisions of said promissory notes and said Agreement.

There was presented to the meeting Aircraft Lease dated September 9, 1955 between this Corporation and Pan American World Airways, Inc., covering the lease of four DC-6's by this Corporation to Pan American World Airways, Inc. for a period of three years at a rental of \$22,500 per month, and the lease by Pan American World Airways, Inc. to this Corporation of one DC-6B for a period of three years at a rental of \$22,500 per month, such lease being executed in the name and on behalf of this Corporation by K A Lawder, Vice President and Comptroller.

On motion duly adopted, it was

RESOLVED that the action of K A Lawder, Vice President and Comptroller of this Corporation, in executing in the name and on behalf of this Corporation Aircraft Lease dated September 9, 1955 between this Corporation and Pan American World Airways, Inc., in the form presented to this meeting, be and the same hereby is approved, ratified and confirmed.

On motion duly adopted, it was

RESOLVED that hereafter the regular meetings of the Board of Directors shall be held on the Monday preceding the first Tuesday of each month at 4:30 o'clock in the afternoon at the office of Pan American World Airways, Inc.

Mr. John C. Leslie presented his resignation as a Director of the Corporation, such resignation being subject to, and to take effect upon, the election of his successor to such directorship becoming effective.

Mr. Leslie's resignation, effective as stated therein, was accepted with regret.

[fol. 3460] The meeting thereupon proceeded to the election of a Director to succeed Mr. Leslie. Mr. Roger Lewis was duly nominated and unanimously elected a Director of the Corporation, Mr. Lewis' election being subject to, and to become effective upon, approval thereof by the Civil Aeronautics Board, he thereupon to succeed the said John C. Leslie or such successor of said John C. Leslie as may have been sooner elected and qualified.

There being no further business, the meeting adjourned.

.....
Chairman

.....
Secretary

[fol. 3461]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 391

Minutes of Adjourned Regular Meeting of the Board of Directors of Pan American-Grace Airways, Inc held at the office of Pan American World Airways, Inc, 135 East 42nd Street, New York, NY on the 20th day of December, 1955 at 4:00 o'clock in the afternoon.

PRESENT:

Messrs Edwin Balluder
Edward L. Farrell, Jr.
Henry J. Friendly
Felix E. Larkin
John C. Leslie
Franklin Moon
Wilbur L. Morrison

being a quorum of the Board.

Mr. Balluder, Vice President, presided. Mr. Cogswell, Secretary, acted as Secretary of the meeting.

Minutes of Regular Meeting of November 2, 1955 were read and approved.

The resignations of Mr. H. J. Roig and Mr. J. H. Stebbins as Directors, which had been accepted at the special stockholders' meeting of December 5, 1955, were noted with regret. The Secretary was directed to advise Mr. Roig and Mr. Stebbins to this effect and to specially advise Mr. Roig of their appreciation of his twenty-six years of service and hard work for the company.

Mr. Balluder reported on Mr. Lawder's discussion with the Civil Aeronautics Board in reference to our rate case. He also reported estimated profits for 1955.

The following capital appropriations were reported:

459 (LIM)	Three Wollard Passenger Loading Stairs for Cali, Antofagasta and Limatambo	\$14,580
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126 (M)	Auto approach equipment for four DC-6B aircraft	6,381
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[fol. 3462] The following capital appropriation was authorized:

125 (M)	VHF Equipment for five DC-6B aircraft	\$54,406
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The acquisition of jet aircraft was recommended by the management. Mr. Leslie thereupon made the following statement:

"The necessity for Panagra's investing many millions of dollars in jet aircraft, a program which Pan American as a stockholder fully supports, has focused attention on what Pan American has regarded for some time as serious unfairness in the provisions of the Through Flight Agreement of 1946 between Panagra and Pan American with respect to investment, rate of return and related matters. Comparison of the provisions of the 1946 Through Flight Agreement

with that which Panagra recently entered into with National and Pan American abundantly illustrates this. Pan American therefore suggested to the Grace Directors that it would be appropriate to review these provisions of the agreement at this time, when such a large additional investment by Panagra is proposed. The Grace Directors have felt that Panagra's jet order should not be postponed pending such a review. Pan American is willing to go along with the management's recommendations that Panagra should acquire four DC-8 aircraft powered with J-75 engines, subject, however, to the following:

1. Pan American desires to make clear that it intends to call for review of the provisions of the Through Flight Agreement with respect to investment, return and related [fol. 3463] matters, such as, but not limited to, the inclusion of equipment purchase funds, and the sharing of gains on the sale of flight equipment, and, failing the agreement which it hopes to be able to secure, to seek arbitration. It assumes that Panagra will be willing to join in expediting these procedures. Pan American's assent as a stockholder to the proposed Panagra jet order shall not be claimed in any way to prejudice it as a party to the Through Flight Agreement in such review or arbitration.

2. Without limiting the generality of the foregoing, Pan American's acquiescence as a stockholder in the Panagra management's recommendation shall not be claimed in any such review or arbitration to be an admission of the propriety of the decision as to the type, power plant, or number of aircraft, or of the principle that it is appropriate to consider the advantages of DC-8 aircraft powered with J-75 engines for flights that involve the overflying of junctions between National's, Pan American's and Panagra's routes in the absence of an agreement to this end on the part of these other airlines or any assurance that necessary Governmental authorization could be secured.

One of the considerations that has been urged by Pan American in favor of selection of the Boeing 707 aircraft for Panagra was Pan American's fear that selection of the DC-8 by Panagra would lead to a situation in which jet operations

to South America would be instituted by Panagra's competitors before Panagra was in a position to do this. This fear has since been confirmed by Braniff's order for Boeing 707 [fol. 3464] aircraft. In order to improve the delivery situation produced by the management's recommendation of the DC-8, insofar as this lies within Pan American's power, Pan American will make available to Panagra out of its own order for Douglas DC-8 aircraft deliveries earlier than those which Panagra has been able to negotiate with Douglas. Specifically, Pan American will make available one of the two aircraft which Douglas has contracted to deliver to Pan American in February, April, May and August, 1960—the first three of these being one month earlier than Douglas' offer to Panagra. Pan American is also willing to protect Panagra with an option, at least as advantageous as that offered by Douglas, for two additional aircraft for delivery in 1961, if being understood, of course, that exercise of such option must be approved by Panagra's Board of Directors.

Mr. Leslie stated that in the light of the management's recommendations and subject to the foregoing the proper course would appear to be for Panagra to authorize Pan American, as Panagra's agent, to arrange for the sale to Panagra of four of the Douglas DC-8 aircraft which Pan American already has under contract, as outlined above. Whether this can best be done by partial assignment of Pan American's contract or by an amendment of Pan American's contract with Douglas and the making of a new contract by Pan American as agent for Panagra could be subsequently determined."

Upon agreement by the Directors that the aforesaid conditions were acceptable to the company, the management was authorized to purchase four DC-8s with J-75 engines [fol. 3465] for delivery in 1960 at an estimated cost of \$25,000,000, and to take an option to purchase two more for delivery in 1961.

On motion duly made and seconded, it was unanimously

RESOLVED that a dividend of One Dollar and Fifty Cents (\$1.50) per share be and hereby is declared on the capital stock of this corporation payable December 27, 1955 to stockholders of record at the close of business December 21, 1955.

There being no further business, the meeting was adjourned to December 22, 1955 at 4:30 o'clock in the afternoon at the same place.

.....
Chairman of the Meeting

.....
Secretary

[fol. 3466]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 392

Panagra Jet Program

Meeting held November 17, 1955

PRESENT: Messrs. Leslie
Balluder
Friendly
Shea
Larkin

JCL. Working more on problem—feel more that Boeing best designed for route.

Competitive situation—

- 1) PAA plans
- 2) EAL-Branniff plans

Believe Lockheed Electra schedules will give EAL 15 by March, 1959.

PAA plans to put Boeings with J-57 engine on East Coast by spring of 1959.

Has been in PAA's mind that Panagra should inaugurate jet service simultaneously with PAA and would make Boeings available to Panagra to that end.

Don't see how Panagra can for a long period against B.A. and PAA competition with superior aircraft.

SHEA "As far as PAA competition is concerned, are talking only about B.A."

Rather wait one year to get "right" airplane—in long run not going to "hedge-hop."

HJF Better look at things as they are, and then speculate if one wishes.

SHEA His people think DC-8 better—problem of operating J-57 at full power.

[fol. 3467] JCL This thinking comes from piston engine—no problem of operating turbines at 85% power.

SHEA Don't your men consider DC-8 with J-75 a better airplane than 707 with J-57.

JCL Only for transocean routes.

SHEA Wants airplane capable of doing long range stuff if we need it. Better to pay extra money.

JCL Does he know how much?

SHEA No.

JCL We have analyzed it. Analysis requested by Panagra based on ranges not available to Panagra and in seat mile costs.

On plane mile basis annual differential is \$307,840 and return is \$451,000—for 3 airplanes.

For 4 airplanes \$1,011,788 a year. •

LARKIN : Panagra technician Ted J. 57 gives rise to certain technical problems on Panagra route in view of temperature problem.

Runway requirements of DC-8 are less.

JCL : Not satisfied this is so.

While DC-8 is better for take-off, worse for landing.

Runways must be extended for either airplane. If you design a runway fit for landing requirements of DC-8, you will have designed a runway suitable for take-off of Boeing.

SHEA : All we are interested in is in getting best airplane.

Influence by good performance of Douglas, Boeing's performance not so good.

JCL : Boeing flying boat and 377 as airframes excellent. Problems are in engines and in relation to airframe.

[fol. 3468] SHEA : What kind of cooperation.

JCL : Boeing hard to do business with, but gets it done.

BALLUDER : Offset in Boeing experience with big jets. Douglas may have lots of problems.

SHEA : You're putting a big bet on Douglas.

HJF : We have insurance—bought Boeings because we thought Douglas might be as much as six or eight months behind.

BALLUDER : Douglas 18 months behind for Panagra even if schedule lived up to.

Also don't believe Panagra justified in discounting C-5 engine. We believe real possibility.

SHEA Would you mind getting Campbell and Kirkland up.

HJF Would like their written reports.

JCL Campbell told our people what he wanted and our people gave it to them.

Wouldn't want to foreclose discussions with them, but premature to reach conclusions until our technicians have had their reports and have completed their segment analysis.

HJF Mustn't disregard domestic orders of J-57.

Lewis, Campbell and Kirkland came in.

SHEA JCL had made comment as to Boeing with J-57 vs DC-8 with J-75. Would like them to hear.

JCL Seems to us that each airplane ideal for respective purposes. Thinks Boeing better for Panagra routes.

1) Available *at least* 18 months sooner.

If Panagra has to compete for this period or longer against EAL-Braniff Electras, would be disastrous.

[fol. 3469] JCL 2) 4 Boeings could operate \$1,000,000 cheaper and involve \$4,000,000 less investment.

Thinks engineering report prepared at Campbell's specifications should be enlarged to include all route segments. Also PAA technical people should have benefits of Campbell and Kirkland reports.

We've been thinking of inaugurating PAA Boeing service on East Coast in spring of 1959—that Panagra should do same—and we would make suitable delivery dates available for Panagra.

CAMPBELL. Thinks J-75 has important advantages:

1) J-57 up to its limit and has to employ several thousand pounds of water for this.

J-75 has margin, particularly useful in hot weather.

From safety angle, pilot has extra power available if something goes wrong on take-off.

2) Take-off runways—

For existing routes, J-75 wouldn't require as long runways and would be far better if longer nonstops became possible.

KIRKLAND. Their feeling is that they should have J-75 regardless of airframe.

No assurance they will have increased runway by 1960 at Lima and Santiago.

Believes higher efficiency of J-75 largely offsets operating economies of J-57.

[fol. 3470] JCL. Runway length problem greater for Douglas on landing.

Runway satisfactory for Douglas on landing would be o.k. for Boeing on take-off.

KIRKLAND. On Lima runway Douglas now has edge.

JCL. Isn't it true that for full volumetric payload need longer runway for DC-8?

KIRKLAND. Douglas figures show this—at least equal.

JCL. What is the airport program?

CAMPBELL. Have to take it for granted we will get extension. Bought DC-6 at time when runways suitable only for DC-3.

SHEA. "They will extend them."

CAMPBELL But might not extend as far as we want. DC-8 would have advantage.

JCL Hasn't CAA studied Lima airport.

KIRKLAND Various projects are under study.

SHEA Have to assume that runway problem will be solved. Always has been.

JCL Boeing believes J-57 power plant most reliable they have ever had. Premise that reciprocating engines should only operate at 60% power doesn't hold on turbine engine.

LEWIS Reciprocating engine experience leads to greater worry on turbine engine than is warranted. Shouldn't be too concerned about water. GE very successful in water in J-47 engine.

KIRKLAND What about problems in NAL interchange.

HJF What problems does he have in mind? Is Panagra going to let interchange partners furnish aircraft?

[fol. 3471] KIRKLAND Just thought NAL might bring up something.

HJF Is NAL contemplating J-75.

KIRKLAND No—but providing for conversion.

SHEA Asked for ranges.

KIRKLAND DC-8 would have 6000 pounds more payload NY-Lima.

JCL Basic specs show only 2000 pounds difference even on this possibility.

SHEA Would need not less than 4 airplanes—want at least daily service.

JCL 3 would do this at 8 hours per day. Our people expect to do better. But would go to 4 airplanes.

- LARKIN Any other technical problems about J-57 beyond those mentioned?
- KIRKLAND No, they have been covered.
J-75 has more growth possibilities.
- BALLUDER Figures already take into consideration high temperature suggested by Panagra.
- JCL Hate to face Electra competition for 18-24 months.
- SHEA Can't get away from fact that we're buying airplanes for 10 years should get maximum flexibility.
- LEWIS Shouldn't forget enormous experience of Boeings in large jet aircraft. Douglas jet experience not brilliant. No one could minimize Douglas transport experience but going into new field. Boeing should have advantage of couple of years.
- SHEA Directed Kirkland and Campbell to deliver technical reports to our people.
We'll study more and talk more.
"Will talk to you next week, John."

[fol. 3472]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 393

Minutes of Regular Meeting of Board of Directors of Pan American-Grace Airways, Inc. held at the office of Pan American World Airways, Inc., 135 East 42nd Street, New York, N. Y. on the 6th day of April, 1959 at 4:00 o'clock in the afternoon.

PRESENT:

Messrs. Erwin Balluder
 Edward L. Farrell, Jr.
 Henry J. Friendly
 Felix E. Larkin
 Kenneth A. Lawder
 Andrew B. Shea

being a quorum of the Board.

Mr. Shea, President, presided. Mr. Oxley, Secretary, acted as such.

Minutes of regular meeting of March 2, 1959 were read and approved.

The following financial data were submitted and discussed.

Comparative statement of Profit and Loss for the month of February 1959 and 1958 and for the two months ended February 28, 1959 and 1958.

Comparative Analysis Flight/Traffic Statistics for the month of February 1959 and 1958 and two months ended February 1959 and 1958.

Comparison of Final audited Results for year ended December 31, 1958 with Estimate.

Comparative Statement of Profit and Loss for month of December 1958 and year ended December 31, 1958 (Final Closing) and December 31, 1957.

Comparative Statement of Profit and Loss for Quarter Year and year ending December 31, 1958 and December 31, 1957.

Statement of Cash Position as at March 31, 1959 and comparison with December 31, 1958 and March 31, 1958.

Cash Position Forecast for year ending March 31, 1960.

[fol. 3473] The following capital appropriation was reported:

RCA LHM 504—Replacement of
Panel Truck for Ezeiza

\$5,343

The current status of the rate case was discussed. The Board considered the possibility of applying for a temporary rate. It was decided not to press for a temporary rate at the present time, although the matter may be reconsidered in the future if the Civil Aeronautics Board continues to delay consideration of the company's application for a permanent rate.

The President reported that the Link simulator will be delivered four months late. He suggested that in view of the late delivery, consideration should be given to the cancellation of the purchase contract. The possibility of training Panagra pilots on the Pan American simulator at Idlewild will be explored.

The President also reported that conversations are proceeding concerning the possibility of Pan American doing maintenance work on Panagra's DC-8's when an appropriate maintenance base has been established.

On motion duly adopted, it was

RESOLVED that the President is authorized to negotiate with Pan American World Airways the necessary Through Flight Agreement modifications, for subsequent submission to the Civil Aeronautics Board for approval, which will permit Panagra DC-8 aircraft to overfly Balboa, C. Z. and, contingent upon the negotiations with National Airlines referred to in the following resolution, to overfly Miami in the service between New York and Buenos Aires via the West Coast of South America.

[fol. 2474] RESOLVED FURTHER that the President is authorized to negotiate with Pan American World Airways and with National Airlines in order to make the necessary Interchange Agreement modifications, for subsequent submission to the Civil Aeronautics Board for approval, which will permit Panagra aircraft to overfly Miami in the service between New York and Buenos Aires via the West Coast of South America.

There being no further business, the meeting adjourned.

.....
Chairman

.....
Secretary

[fol. 3175]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 394

BEFORE THE
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.
Docket No. 10,324

—
In the Matter of the Application
of

URABA, MEDELLIN and CENTRAL AIRWAYS, INC. under Section
401(j) of the Federal Aviation Act of 1958 for leave to
abandon its route and certificate.

—
APPLICATION OF URABA, MEDELLIN and
CENTRAL AIRWAYS, INC.

Communications with respect to this
Application should be sent to:

ELIHU SCHOTT
Attorney for Uraba, Medellin,
and Central Airways, Inc.
135 East 42nd Street
New York, N.Y.

Dated: New York, N.Y.
March 18, 1959.

[fol. 3476]

BEFORE THE
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

Docket No. _____

In the Matter of the Application
of

URABA, MEDELLIN and CENTRAL AIRWAYS, INC. under Section
401(j) of the Federal Aviation Act of 1958 for leave to
abandon its route and certificate.

APPLICATION OF URABA, MEDELLIN and
CENTRAL AIRWAYS, INC.

The application of Uraba, Medellin and Central Airways, Inc. (UMCA) respectfully shows to the Board as follows:

1. UMCA is the holder of a certificate of public convenience and necessity issued pursuant to Order Serial No. 749, approved by the President of the United States on November 26, 1940, which authorizes it to engage in air transportation with respect to persons, property and, except as indicated, mail between "the terminal point Cristobal, Canal Zone, the intermediate points, Balboa, Canal Zone, and Turbo, Colombia, and (except with respect to mail) the terminal point Medellin, Colombia."

2. Pursuant to such authority, UMCA is currently operating three round trip flights a week between Balboa and Medellin.

3. UMCA owns no flight equipment and only a very minor amount of ground equipment. It has no employees. In con-
[fol. 3477] ducting its operations described above, it leases
aircraft with crews from Pan American World Airways, Inc. by which it is wholly owned.

4. UMCA's operations are and have for many years been unprofitable. In 1958 its operating loss amounted to \$59,000. As of December 31, 1958, UMCA had an accumulated net loss of \$615,000, which entirely wiped out its invested capital, and left it with a debt to Pan American of \$450,000.

5. There is scheduled air service between Balboa and Medellin provided by other air carriers.

6. In the light of the foregoing, abandonment of the route and certificate of UMCA would appear to be in the public interest.

WHEREFORE, UMCA hereby applies under Section 401(j) of the Act, for leave to abandon said route and certificate, and for such other and further relief as to the Board may appear just and proper.

Respectfully submitted,

/s/ ELIHU SCHOTT

Elihu Schott

Attorney for Uraba, Medellin
and Central Airways, Inc.

Dated: March 18, 1959.

[fol. 3478]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 395

POST OFFICE APPROPRIATION BILL, 1931

HEARINGS

BEFORE

**SUBCOMMITTEE OF HOUSE COMMITTEE
ON APPROPRIATIONS**

CONSISTING OF

MESSRS. WILLIAM R. WOOD (CHAIRMAN)
MAURICE H. THATCHER, GUY U. HARDY, ROBERT L. BACON
JOSEPH W. BYRNS, AND ———

IN CHARGE OF

POST OFFICE APPROPRIATION BILL FOR 1931

SEVENTY-FIRST CONGRESS**SECOND SESSION**

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON: 1930

Mr. BYRNS. Suppose you put in the record a statement showing the bids received and the bids that were accepted, and also showing from whom they were received.

Mr. GLOVER. I will do so.

(The statement referred to is as follows:)

Bids for foreign air mail service

Route No.	Rate per mile	Bids received		Contract awarded to—
		Name of bidder		
F. A. M. 1—New York-Montreal.	55.00	Canadian Colonial Airways (Inc.)	Canadian Colonial Airways (Inc.)	
F. A. M. 2—Seattle-Victoria.	1.00 70	Albany Air Service (Inc.) Barnes & Gertt Airlines (Inc.)	Barnes & Gertt Airlines (Inc.)	
F. A. M. 3—New Orleans-Puerto Rico.	100.00 100.00	Boring Air Transport (Inc.) Northwest Air Service (Inc.) Allied Aviation Industries (Inc.) Arthur E. Cambas	Arthur E. Cambas	
F. A. M. 4—Miami-Havana.	2.00 100.00 120.00 100.00	Gulf Air Lines (Inc.) West Aircraft (Inc.) H. S. Adams Pan American Airways (Inc.)	Pan American Airways (Inc.)	
F. A. M. 5—Miami-Cristobal, Canal Zone.	2.00	do	Do	
F. A. M. 6—Miami-Panama.	2.00	do	Do	
F. A. M. 7—Miami-Namua.	2.00	West India Aerial Express (Inc.)		
F. A. M. 8—Miami-Namua.	2.00	Universal Air Lines System		
F. A. M. 9—Brownsville-Mexico City.	1.15 1.20 1.20 1.30 1.70 2.00 1.40	Pan American Airways (Inc.) Air Transportation (Inc.) J. Ray Shute, Jr. Montreal Aircraft Corporation H. S. Adams Walker T. Varney (Inc.) Consolidated Aircraft Corporation Pan American Airways (Inc.) American International Airways (Inc.)	Do	
F. A. M. 10—Cristobal-Buenos Aires.	1.40 1.50 1.50 1.50	Pan American-Grace Airways (Inc.) Trimotor Safety Airways (Inc.) Consolidated Aircraft Corporation Fred B. Arnold	Do	

1 Round trip.

MIAMI TO HABANA ROUTE

Mr. BYRNS. You have a route from Miami to Habana, then a route from Miami through Habana to San Juan, and then another route from Miami through Habana probably to the Port of Spain. You have three routes running through Habana and I take it that these routes are practically under the same company.

Mr. GLOVER. Yes, sir.

Mr. BYRNS. Would it not have been possible to have had what you might call a relay point at Habana? You are paying mileage, as I understand it, from Miami on three routes right through Habana.

Mr. GLOVER. There are just two of them.

Mr. BYRNS. I thought there were three. You are paying poundage to practically the same company on two routes through Habana. In other words, you have two routes from Miami to Habana.

Mr. GLOVER. Yes, sir.

Mr. BYRNS. Does not that create a greater expense?

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 396

Weight of air mail dispatched to Antigua

Wt. of Mail only
 Except a Few Closed
 in Transit Mail

Wt. of Mail only

5

Weight of air mail dispatched to Antigua

Fiscal Year	<u>United States Origin</u>		<u>Foreign Origin</u>		<u>Canal Zone Origin</u>	
	<u>Lbs.</u>	<u>Ozs.</u>	<u>Lbs.</u>	<u>Ozs.</u>	<u>Lbs.</u>	<u>Ozs.</u>
1934	208	13	87	7		
1935	413	9	117	11		
1936	448	4	195	3		
1937	610	1	319	14		
1938	359	2	106	0	5	12
1939	484	6	126	12	1	9
1940	571	11	243	8	5	8
1941 (July-Dec.)	448	11	382	0	2	1
Totals	3,604	9	1,578	7	14	14

Weight of air mail dispatched to Argentina

Fiscal Year	Lbs.	Ozs.	Lbs.	Ozs.	Lbs.	Ozs.
1934	2,990	6	125	2		
1935	3,810	14	320	8		
1936	4,326	0	399	7		
1937	6,731	5	531	9		
1938	7,026	2	800	13	26	5
1939	7,951	6	614	7	28	1
1940	12,345	15	2,525	8	34	13
1941 (July-Dec.)	8,372	9	4,006	0	22	8
Totals	53,554	9	9,403	6	111	11

Weight of air mail dispatched to Bahamas

Fiscal Year	Lbs.	Ozs.	Lbs.	Ozs.
1934	1,021	7	155	12
1935	722	2	58	9
1936	1,702	2	70	6
1937	620	7	232	2
1938	2,514	2	366	3
1939	3,136	14	594	7
1940	3,202	3	656	1
1941 (July-Dec.)	1,395	5	660	6
Totals	14,395	10	2,854	3

Weight of air mail dispatched to Barbados

Fiscal Year	United States Origin		Foreign Origin		Canal Zone Origin	
	Lbs.	Ozs.	Lbs.	Ozs.	Lbs.	Ozs.
1938	105	13	45	4		
1939	682	14	250	6	2	15
1940	911	2	515	0	60	11
1941 (July-Dec.)	468	9	478	2	37	4
Totals	2,166	6	1,288	12	100	14

Weight of air mails dispatched to Bolivia

1934	279	15	49	13		
1935	296	7	70	11		
1936	401	0	99	7		
1937	611	7	108	6		
1938	813	12	168	11	9	11
1939	905	5	175	15	13	4
1940	1,432	12	504	7	16	11
1941 (July-Dec.)	1,013	13	294	3	10	12
Totals	5,754	7	1,471	9	50	6

Weight of air mail dispatched to Brazil

1934	3,949	1	111	13		
1935	5,228	5	299	1		
1936	5,485	13	399	10		
1937	8,328	2	653	12		
1938	7,394	6	648	10	11	9
1939	8,441	6	702	4	16	3
1940	13,934	8	1,968	5	17	13
1941 (July-Dec.)	9,331	6	2,297	7	15	12
Totals	62,094	15	7,000	14	61	5

[fol. 3482]

Weight of air mail dispatched to British Colonies

Fiscal Year	United States Origin		Foreign Origin		Canal Zone Origin	
	Lbs.	Oz.	Lbs.	Oz.	Lbs.	Oz.
1934	418	1	125	0		
1935	487	5	138	12		
1936	485	13	248	8		
1937	621	14	440	0		
1938	433	9	373	7	9	11
1939	459	2	406	11	10	2
1940	548	15	593	6	10	9
1941 (July-Dec.)	383	8	617	5	5	0
Totals	3,638	3	2,943	3	35	6

Weight of air mail dispatched to British Honduras

1934	253	2	83	12		
1935	305	6	88	11		
1936	346	8	92	10		
1937	363	8	110	7		
1938	418	4	137	3		
1939	354	1	173	12	15	10
1940	381	6	207	6	29	2
1941 (July-Dec.)	239	3	332	14	16	2
Totals	2,661	6	1,226	11	60	14

Weight of air mail dispatched to Canal Zone

1934	4,338	9	257	9		
1935	5,268	1	313	6		
1936	6,818	4	512	7		
1937	7,723	0	573	6		
1938	9,039	8	294	3		
1939	20,652	9	848	1		
1940	27,136	14	1,072	8		
1941 (July-Dec.)	20,980	2	662	14		
Total	101,956	15	4,534	6		

Weight of air mail dispatched to Chile

<u>Fiscal Year</u>	<u>United States Origin</u>		<u>Foreign Origin</u>		<u>Canal Zone Origin</u>	
	<u>Lbs.</u>	<u>Ozs.</u>	<u>Lbs.</u>	<u>Ozs.</u>	<u>Lbs.</u>	<u>Ozs.</u>
1934	1,392	11	172	7		
1935	2,009	14	239	3		
1936	2,494	15	249	12		
1937	3,249	5	295	6		
1938	3,544	10	308	12	170	10
1939	3,560	10	507	10	181	14
1940	5,814	11	1,337	8	218	4
1941 (July-Dec.)	3,895	0	1,076	12	125	6
Totals	25,961	12	4,267	6	696	2

Weight of air mail dispatched to Colombia

1934	4,393	8	1,521	3		
1935	5,698	0	2,028	8		
1936	6,114	12	2,543	0		
1937	7,571	5	3,368	13		
1938	9,243	9	4,074	5	545	6
1939	11,987	6	4,969	6	613	12
1940	13,874	9	3,184	3	500	15
1941 (July-Dec.)	8,471	6	1,035	2	321	9
Totals	67,354	7	22,784	8	2,161	10

Weight of air mail dispatched to Costa Rica

1934	1,032	0	213	7		
1935	1,239	3	277	10		
1936	1,352	0	354	2		
1937	1,703	15	660	12		
1938	2,010	8	648	6	302	1
1939	2,626	1	883	8	351	11
1940	3,585	3	682	3	487	5
1941 (July-Dec.)	2,324	7	277	9	295	7
Totals	15,873	5	3,997	9	1,436	8

[fol. 3484]

Weight of air mail dispatched to Cuba

<u>Fiscal Year</u>	<u>United States Origin</u>		<u>Foreign Origin</u>		<u>Canal Zone Origin</u>	
	<u>Lbs.</u>	<u>Ozs.</u>	<u>Lbs.</u>	<u>Ozs.</u>	<u>Lbs.</u>	<u>Ozs.</u>
1934	11,905	14	786	2		
1935	16,652	2	900	12		
1936	21,469	15	941	13		
1937	26,103	7	1,744	15		
1938	29,645	12	2,496	13	149	12
1939	33,695	9	3,687	12	164	13
1940	41,109	10	3,306	13	252	0
1941 (July-Dec)	21,016	15	1,630	10	133	9
Totals	201,199	4	15,405	10	700	2

Weight of air mail dispatched to Curacao

1934	235	8	46	12		
1935	352	1	62	7		
1936	457	1	101	2		
1937	868	9	262	3		
1938	1,690	13	203	7	43	0
1939	2,612	13	300	15	61	6
1940	3,180	0	828	10	81	1
1941 (July-Dec)	1,827	7	269	1	42	3
Totals	11,224	4	2,154	8	227	10

Weight of air mail dispatched to Dominican Republic

1934	2,053	1	229	9		
1935	2,517	14	246	13		
1936	2,763	8	357	15		
1937	3,316	1	555	9		
1938	3,782	3	492	9		
1939	4,006	7	676	12		
1940	4,596	7	647	13		
1941 (July-Dec)	2,386	12	365	13		
Totals	25,422	5	3,584	13		

Weight of air mail dispatched to Ecuador

<u>Fiscal Year</u>	<u>United States Origin</u>		<u>Foreign Origin</u>		<u>Canal Zone Origin</u>	
	<u>Lbs.</u>	<u>Oss.</u>	<u>Lbs.</u>	<u>Oss.</u>	<u>Lbs.</u>	<u>Oss.</u>
1934	859	13	336	9		
1935	1,086	5	525	10		
1936	1,246	12	523	8		
1937	1,993	11	619	15		
1938	1,721	3	657	7	204	0
1939	1,712	5	691	9	192	12
1940	3,142	14	919	6	228	7
1941 (July-Dec)	1,681	4	298	4	134	2
Totals	13,044	3	4,572	4	799	5

Weight of air mail dispatched to El Salvador

1934	1,201	6	334	10		
1935	1,657	11	419	3		
1936	1,762	4	445	8		
1937	1,926	3	601	6		
1938	2,044	9	581	5	152	4
1939	2,332	8	684	9	153	12
1940	3,092	8	512	6	161	15
1941 (July-Dec)	1,688	12	166	3	62	5
Totals	15,705	13	3,745	2	530	4

Weight of air mail dispatched to French Guiana

1934	61	0	32	5		
1935	64	15	58	6		
1936	63	4	103	14		
1937	61	7	144	13		
1938	36	2	54	5	3	13
1939	34	6	41	5		
1940	39	8	37	3		
1941 (July-Dec)	29	11	13	13		
Totals	390	5	488	0	3	13

[fol. 348E]

Weight of air mail dispatched to French West Indies

<u>Fiscal Year</u>	<u>United States Origin</u>		<u>Foreign Origin</u>		<u>Canal Zone Origin</u>	
	<u>Lbs.</u>	<u>Ozs.</u>	<u>Lbs.</u>	<u>Ozs.</u>	<u>Lbs.</u>	<u>Ozs.</u>
1938	393	10	97	6	9	11
1939	555	2	122	5	11	9
1940	942	5	244	5	13	6
1941 (July-Dec)	361	5	109	0	6	4
Totals	2,252	6	573	0	40	14

Weight of air mail dispatched to Guatemala

1934	1,402	4	385	0		
1935	1,728	12	464	15		
1936	1,968	11	640	7		
1937	2,277	12	876	10		
1938	2,697	6	868	7	128	11
1939	3,344	3	1,175	4	157	9
1940	4,154	14	822	2	164	5
1941 (July-Dec)	2,107	14	360	4	64	4
Totals	19,681	12	5,613	1	514	13

[fol. 3487]

Weight of air mail dispatched to Haiti

<u>Fiscal Year</u>	<u>United States Origin</u>		<u>Foreign Origin</u>		<u>Canal Zone Origin</u>	
	<u>Lbs.</u>	<u>Ozs.</u>	<u>Lbs.</u>	<u>Ozs.</u>	<u>Lbs.</u>	<u>Ozs.</u>
1934	2,016	7	215	12		
1935	1,539	11	248	7		
1936	1,597	2	274	12		
1937	1,681	8	342	6		
1938	1,792	0	326	2		
1939	2,165	4	440	11		
1940	2,475	13	428	14		
1941(July-Dec.)	1,364	11	158	3		
Totals	14,637	8	2,435	3		

Weight of air mail dispatched to Republic of Honduras

1934	716	11	119	2		
1935	976	2	178	1		
1936	1,116	6	172	8		
1937	1,475	4	284	2		
1938	1,587	15	258	11	97	12
1939	2,005	4	310	12	90	5
1940	2,341	12	316	9	110	2
1941(July-Dec.)	1,373	11	154	9	56	10
Totals	11,593	4	1,774	6	354	13

Weight of air mails dispatched to Jamaica

1934	2,701	8	756	12		
1935	3,663	3	775	3		
1936	90	5	1,106	5		
1937	4,635	14	1,489	14		
1938	4,976	15	2,078	9	246	9
1939	6,277	0	2,719	12	280	1
1940	5,744	15	2,588	1	384	1
1941(July-Dec.)	2,453	9	2,244	6	219	8
Totals	34,743	5	13,758	14	1,330	3

[fol. 3488]

Weight of air mail dispatched to Mexico

<u>Fiscal Year</u>	<u>United States Origin</u>		<u>Foreign Origin</u>		<u>Canal Zone Origin</u>	
	<u>Lbs.</u>	<u>Ozs.</u>	<u>Lbs.</u>	<u>Ozs.</u>	<u>Lbs.</u>	<u>Ozs.</u>
1934	10,264	1	1,156	6		
1935	11,117	8	1,386	8		
1936	16,180	5	2,147	8		
1937	20,017	13	3,118	0		
1938	19,521	0	3,402	13	106	12
1939	19,896	2	3,931	8	105	0
1940	27,936	3	3,559	11	113	5
1941(July-Dec.)	15,235	6	1,799	7	46	10
Totals	140,168	6	20,501	13	371	11

Weight of air mails dispatched to Nicaragua

1934	1,077	8	192	5		
1935	1,228	10	261	10		
1936	1,275	8	402	14		
1937	1,730	14	560	13		
1938	1,741	9	419	3	124	6
1939	2,407	9	636	8	124	13
1940	3,507	8	437	0	180	0
1941(July-Dec.)	2,210	3	123	8	89	12
Totals	15,179	5	3,033	13	518	15

Weight of air mail dispatched to Panama

1934	1,265	8	184	6		
1935	1,430	1	197	14		
1936	1,621	9	316	7		
1937	2,126	6	466	8		
1938	1,623	0	324	4	50	12
1939	1,665	5	266	15	41	7
1940	2,327	15	323	11	54	1
1941(July-Dec.)	1,114	12	130	2	36	1
Totals	13,174	8	2,210	3	180	5

[fol. 3489]

Weight of air mail dispatched to Paraguay

<u>Fiscal Year</u>	<u>United States Origin</u>		<u>Foreign Origin</u>		<u>Canal Zone Origin</u>	
	<u>Lbs.</u>	<u>Ozs.</u>	<u>Lbs.</u>	<u>Ozs.</u>	<u>Lbs.</u>	<u>Ozs.</u>
1934	30	0	1	14		
1935	42	12	4	14		
1936	61	11	14	0		
1937	31	8	17	1		
1938	101	7	20	3		
1939	144	14	17	11		
1940	251	5	64	10		
1941 (July-Dec.)	166	5	30	3		
Totals	629	14	190	8		

Weight of air mail dispatched to Peru

1934	1,273	8	363	2		
1935	1,890	4	801	10		
1936	2,291	8	782	13		
1937	3,126	12	909	5		
1938	3,536	4	977	14	235	4
1939	4,097	3	1,290	8	247	14
1940	5,903	15	1,483	14	246	11
1941 (July-Dec.)	3,406	6	752	7	134	7
Totals	25,087	12	7,563	9	884	4

Weight of air mails dispatched to Puerto Rico

1934	8,816	8	235	9		
1935	11,685	15	258	15		
1936	15,916	0	318	0		
1937	16,708	12	534	14		
1938	21,144	9	309	14		
1939	26,538	5	330	0		
1940	45,376	3	375	11		
1941 (July-Dec.)	24,467	5	217	8		
Totals	180,935	9	2,380	7		

[fol. 3490]

Weight of air mail dispatched to St. Lucia

<u>Fiscal Year</u>	<u>United States Origin</u>		<u>Foreign Origin</u>		<u>Canal Zone Origin</u>	
	<u>Lbs.</u>	<u>Ozs.</u>	<u>Lbs.</u>	<u>Ozs.</u>	<u>Lbs.</u>	<u>Ozs.</u>
1934	307	6	28	9		
1935	91	0	16	3		
1936	5	11	0	12		
Totals	404	1	105	8		

Weight of air mail dispatched to Surinam

1934	175	4	34	15		
1935	215	11	53	9		
1936	235	3	90	2		
1937	293	4	173	5		
1938	303	11	105	14	5	4
1939	233	4	75	15		12
1940	406	4	157	12	4	14
1941 (July-Dec.)	231	8	49	4	1	4
Totals	2,054	1	742	12	12	2

Weight of air mail dispatched to Trinidad

1934	935	7	275	7		
1935	1,543	10	337	5		
1936	1,957	12	507	9		
1937	3,753	5	1,307	10		
1938	3,651	7	1,310	11	117	14
1939	3,657	7	1,572	15	109	2
1940	3,362	15	2,230	6	75	7
1941 (July-Dec.)	2,039	14	1,725	1	43	0
Totals	23,911	13	9,267	0	344	7

[fol. 3491]

Weight of air mail dispatched to Uruguay

<u>Fiscal Year</u>	<u>United States Origin</u>		<u>Foreign Origin</u>		<u>Canal Zone Origin</u>	
	<u>Lbs.</u>	<u>Oss.</u>	<u>Lbs.</u>	<u>Oss.</u>	<u>Lbs.</u>	<u>Oss.</u>
1934	322	9	20	9		
1935	309	4	29	2		
1936	428	12	45	0		
1937	904	13	79	5		
1938	768	4	120	7	1	10
1939	904	12	57	3		
1940	1,277	1	300	11	4	4
1941(July-Dec.)	1,191	10	716	13	2	5
Totals	6,107	1	1,459	2	8	3

Weight of air mail dispatched to Venezuela

1934	2,672	0	350	0		
1935	3,846	4	493	11		
1936	4,186	8	692	6		
1937	7,632	14	1,876	5		
1938	9,609	10	1,926	2	222	1
1939	13,146	11	2,479	3	219	2
1940	17,762	9	2,491	10	219	1
1941(July-Dec.)	9,880	11	939	2	116	12
Totals	68,737	3	11,248	7	777	0

Weight of air mail dispatched to Virgin Islands

1934	502	9	19	0		
1935	584	2	22	4		
1936	744	11	28	13		
1937	786	9	45	9		
1938	1,093	20	45	5	7	3
1939	1,063	2	44	1	5	5
1940	1,185	3	55	10	11	5
1941(July-Dec.)	681	13	31	13	5	0
Totals	6,641	11	292	9	29	2

[fol. 3492]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 397

*Weight includes mail and parcels*Weight of air mail received from Antigua

<u>Fiscal Year</u>	<u>Lbs.</u>	<u>Ozs.</u>
1934	177	10
1935	199	0
1936	223	13
1937	201	9
1938	251	10
1939	325	10
1940	330	4
1941 (July-Dec.)	304	15
Total	1,914	7

Weight of air mail received from Argentina

1934	3,744	3
1935	3,404	1
1936	3,629	0
1937	4,607	10
1938	4,865	15
1939	4,938	13
1940	8,280	11
1941 (A. Y.-Dec.)	7,811	3
Total	40,281	7

Weight of air mail received from Bolivia

1934	62	8
1935	143	7
1936	377	9
1937	341	3
1938	611	8
1939	636	14
1940	1,143	12
1941 (July-Dec.)	683	12
Total	4,380	9

*See Ex R-14 p. 6 for weight
of U.S. Diplomatic Mail carried
in 1940. Above receipts do not include
this mail*

Weight of air mail received from Brazil

<u>Fiscal Year</u>	<u>Lbs.</u>	<u>Oz.</u>
1934	2,529	11
1935	2,745	7
1936	3,469	6
1937	4,467	13
1938	5,037	3
1939	5,997	9
1940	8,212	5
1941 (July-Dec.)	7,531	9
Total	39,990	15

Weight of air mail received from British Guiana

1934	345	8
1935	411	14
1936	460	13
1937	630	1
1938	643	9
1939	635	7
1940	975	15
1941 (July-Dec.)	679	10
Total	4,832	13

Weight of air mail received from Virgin Islands

1934	268	1
1935	452	8
1936	551	3
1937	328	5
1938	435	7
1939		
1940		
1941 (July-Dec.)		
Total	2,035	8

* Included with mails from Puerto Rico

[fol. 3494]

Weight of air mail received from British Honduras

<u>Fiscal Year</u>	<u>Lbs.</u>	<u>Ozs.</u>
1934	561	13
1935	591	0
1936	618	2
1937	612	4
1938	680	10
1939	509	6
1940	458	8
1941 (July-Dec.)	293	1
Total	4,324	12

Weight of air mail received from Canal Zone

1934	6,381	1
1935	7,147	3
1936	8,869	2
1937	8,344	7
1938	10,258	4
1939	16,540	15
1940	21,162	9
1941 (July-Dec.)	16,894	0
Total	95,597	9

Weight of air mail received from Chile

1934	1,563	11
1935	1,738	1
1936	1,910	15
1937	2,189	12
1938	2,405	7
1939	2,506	1
1940	3,931	14
1941 (July-Dec.)	2,672	2
Total	18,917	15

Weight of air mail received from Colombia

<u>Fiscal Year</u>	<u>Lbs.</u>	<u>Ozs.</u>
1934	9,091	13
1935	10,821	3
1936	12,990	11
1937	15,019	14
1938	17,294	5
1939	21,438	8
1940	20,485	7
1941 (July-Dec.)	9,269	5
Total	115,991	2

Weight of air mail received from Costa Rica

1934	1,263	8
1935	1,415	9
1936	1,501	12
1937	1,820	7
1938	2,247	2
1939	2,861	11
1940	3,530	9
1941 (July-Dec.)	3,295	0
Total	17,935	10

Weight of air mail received from Cuba

1934	18,953	9
1935	24,264	7
1936	28,036	15
1937	33,611	2
1938	37,182	3
1939	47,995	12
1940	43,284	10
1941 (July-Dec.)	22,970	0
Total	255,898	10

[fol. 3496]

Weight of air mail received from Curacao

<u>Fiscal Year</u>	<u>Lbs.</u>	<u>Oss.</u>
1934	114	1
1935	141	9
1936	173	6
1937	593	7
1938	1,701	8
1939	3,102	10
1940	3,943	3
1941 (July-Dec.)	1,860	14
Total	11,736	10

Weight of air mail received from Dominican Republic

1934	3,070	3
1935	3,370	0
1936	3,476	9
1937	4,112	15
1938	4,444	0
1939	4,667	8
1940	5,444	10
1941 (July-Dec.)	2,636	4
Total	31,222	1

Weight of air mail received from Ecuador

1934	1,961	15
1935	2,124	5
1936	1,879	4
1937	2,066	0
1938	2,169	0
1939	2,482	4
1940	2,983	14
1941 (July-Dec.)	1,274	7
Total	16,941	1

Weight of air mail received from El Salvador

<u>Fiscal Year</u>	<u>Lbs.</u>	<u>Ozs.</u>
1934	1,974	2
1935	2,357	12
1936	2,406	7
1937	2,603	6
1938	2,699	6
1939	2,852	10
1940	2,830	7
1941 (July-Dec.)	1,306	3
Total	19,030	5

Weight of air mail received from French Guiana

1934	90	2
1935	112	6
1936	135	8
1937	168	6
1938	120	11
1939	84	6
1940	59	3
1941 (July-Dec.)	48	12
Total	819	6

Weight of air mail received from French West Indies

1938	286	8
1939	412	14
1940	708	12
1941 (July-Dec.)	1,007	10
Total	2,493	13

[fol. 3498]

Weight of air mail received from Guatemala

<u>Fiscal Year</u>	<u>Lbs.</u>	<u>Css.</u>
1934	2,384	7
1935	2,493	14
1936	2,987	9
1937	3,269	15
1938	3,659	9
1939	3,890	11
1940	3,984	7
1941 (July-Dec.)	2,049	0
Total	24,719	8

Weight of air mail received from Haiti

1934	1,951	8
1935	2,129	2
1936	2,192	7
1937	2,297	9
1938	2,216	6
1939	3,002	8
1940	2,648	3
1941 (July-Dec.)	1,323	10
Total	17,763	3

Weight of air mail received from Republic of Honduras

1934	836	3
1935	789	2
1936	896	12
1937	1,119	6
1938	1,348	6
1939	1,503	12
1940	1,656	10
1941 (July-Dec.)	913	5
Total	9,063	8

Weight of air mail received from Jamaica

<u>Fiscal Year</u>	<u>Lbs.</u>	<u>Ozs.</u>
1934	3,331	7
1935	3,979	5
1936	4,872	11
1937	6,074	8
1938	6,864	11
1939	8,664	5
1940	7,419	3
1941 (July-Dec.)	3,429	9
Total	44,662	11

Weight of air mail received from Mexico

1934	17,743	0
1935	18,906	7
1936	22,461	14
1937	26,447	22
1938	24,374	4
1939	24,754	7
1940	29,300	9
1941 (July-Dec.)	15,958	11
Total	180,029	0

Weight of air mail received from Nicaragua

1934	1,893	5
1935	1,943	12
1936	2,114	9
1937	2,728	2
1938	3,083	4
1939	3,121	12
1940	2,917	11
1941 (July-Dec.)	1,408	2
Total	19,209	9

[fol. 3500]

Weight of air mail received from Canada

<u>Fiscal Year</u>	<u>Lbs.</u>	<u>Ozs.</u>
1934	1,172	8
1935	1,362	14
1936	1,830	8
1937	2,466	6
1938	2,908	12
1939	3,443	4
1940	3,726	11
1941 (July-Dec.)	2,164	3
Total	19,072	2

Weight of air mail received from Paraguay

1934	14	14
1935	19	14
1936	26	13
1937	37	11
1938	74	13
1939	73	9
1940	182	5
1941 (July-Dec.)	121	6
Total	551	5

Weight of air mail received from Peru

1934	3,155	13
1935	3,674	11
1936	3,251	14
1937	2,897	4
1938	2,823	10
1939	3,638	7
1940	5,031	2
1941 (July-Dec.)	2,811	0
Total	27,987	13

Weight of air mail received from Puerto Rico

<u>Fiscal Year</u>	<u>Lbs.</u>	<u>Oss.</u>
1934	11,897	12
1935	14,781	1
1936	18,453	4
1937	20,921	7
1938	28,177	2
1939*	31,067	4
1940*	34,938	14
1941 (July-Dec.)*	20,394	14
Total	180,631	10

* Includes mails from Virgin Islands

Weight of air mail received from St. Lucia

1934	86	15
1935	102	13
1936	20	5
1937	-	-
1938	-	-
1939	-	-
1940	-	-
1941 (July-Dec.)	-	-
Total	212	1

Weight of air mail received from Surinam

1934	171	4
1935	190	0
1936	211	8
1937	129	8
1938	374	15
1939	362	8
1940	545	13
1941 (July-Dec.)	337	5
Total	2,522	13

[fol. 3502]

Weight of air mail received from Trinidad

<u>Fiscal Year</u>	<u>Lbs.</u>	<u>Ozs.</u>
1934	872	13
1935	1,034	3
1936	1,387	11
1937	2,239	7
1938	2,963	3
1939	3,989	7
1940	5,369	7
1941 (July-Dec.)	3,119	1
Total	20,975	4

Weight of air mail received from Uruguay

1934	243	14
1935	239	7
1936	317	15
1937	439	5
1938	485	2
1939	492	4
1940	814	13
1941 (July-Dec.)	930	13
Total	3,963	9

Weight of air mail received from Venezuela

1934	4,114	5
1935	4,722	8
1936	5,062	13
1937	7,246	9
1938	13,042	15
1939	13,865	0
1940	17,657	3
1941 (July-Dec.)	8,548	4
Total	72,558	15

[fol. 3503]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 398

Panagra Participation in Passenger Traffic between Buenos Aires on the One Hand and Northeast U.S., Canada and Europe on the Other Hand as a Percentage of Panagra System Scheduled Operations - March and September 1957.

March and Sept. 1957
Passenger Miles (000)

Between Buenos Aires and:

New York, New England and Philadelphia	2200
U.S. East Coast south of Philadelphia to and including Washington D.C.	522
Canada (via New York)	93
Europe (via New York)	<u>416</u>
Total	<u>3231</u>

Panagra System Operations30401

Buenos Aires Participa-
 tion as % of Panagra
System Operations

Between Buenos Aires and:

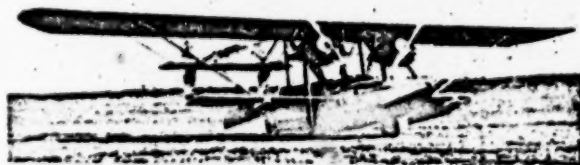
New York, New England and Philadelphia	7.22%
U.S. East Coast south of Philadelphia to and including Washington, D.C.	1.71
Canada (via New York)	0.31
Europe (via New York)	<u>1.36</u>
Total	<u>10.60%</u>

[fol. 3504]

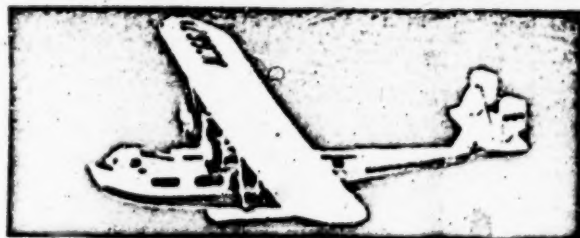
PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 399

V FIFTEEN YEARS OF PIONEERING...

First American "Overseas" Transport (1927) . . . A Fokker F.7. Equipped with special flotation apparatus, this aircraft was used for the first service of the Pan American Airways System between Key West, Florida, and Havana, Cuba.



The First American-Developed Amphibious Air Transport (1928) . . . The Sikorsky S-30 Amphibian. Developed for the extension of the Pan American route beyond Puerto Rico to South America and from Miami via Yucatan and Central America to Panama.



The "Commodore" Flying Boat . . . Built by the Consolidated Aircraft Corp. (1929) used on trans-Caribbean and East Coast South America service of the Pan American Airways System.



The First American 4-Engine Transport (1932) . . . Developed for Pan American Airways Caribbean service by the Sikorsky Airplane Company.

The First American Ocean Transport (1934) . . . A Sikorsky Clipper-type S-41 which was used to serve the Pacific and Atlantic routes.



[fol. 3505]

FIFTEEN YEARS OF PIONEERING...

The First Steam-Turbine Ship (1900) . . . The first ship to use a steam turbine engine and to carry a large number of passengers and mail was the *Mauretania*, built by the Harland and Wolff Co., Ltd., Liverpool, for the White Star Line.



The Boeing Mail Clipper for Atlantic and Pacific Routes (1919) . . . This type, the largest transport aircraft in service, was used to hasten and maintain the fast trans-Atlantic passenger and airmail service.



Lockheed Replacing Flying Boat and Airship (1930) . . . This rugged land transport has been added to Pan American's fleet of additional land aircraft.



The First American High-Altitude Four-Engine Land Transport (1938) . . . New high-speed Clippers built by Boeing are used for trans-Atlantic and overland flights. They provide excellent service for such airway routes as that from Miami to Havana, C. Z.



FLIGHT MILEAGE

Each inch equals approximately 1,000,000 miles flown

The mileage chart above shows how Pan American's flight mileage gradually climbed from 1927 up until 1941. The 1942 increase for passenger air service, Pan American records, bringing the airline's total to 1,000,000 miles of international flight.

[fol. 3506]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 400

[Handwritten notation—Please return to Legal]

TREATIES AND OTHER INTERNATIONAL ACTS
SERIES 1900

AIR TRANSPORT SERVICES

Agreement between the
UNITED STATES OF AMERICA
and BRAZIL

- Signed at Rio de Janeiro
September 6, 1946
- Entered into force October 6, 1946.

(Emblem of Department of State, U. S. of America)

[fol. 3507]

AIR TRANSPORT AGREEMENT BETWEEN THE
UNITED STATES OF AMERICA AND THE
UNITED STATES OF BRAZIL¹

¹ The following is a photographic reproduction of the signed original.

[fol. 3507a]

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[fol. 3508]

—2—

**AIR TRANSPORT AGREEMENT BETWEEN THE
UNITED STATES OF AMERICA AND THE
UNITED STATES OF BRAZIL.**

The Government of the United States of America and the Government of the United States of Brazil, considering:

—that the ever-growing possibilities of commercial aviation are of increasing importance;

—that this means of transportation because of its essential characteristics, permitting rapid connections, provides the best means for bringing nations together;

—that it is desirable to organize in a safe and orderly form regular international air services, without prejudice to national and regional interests, having in mind the development of international cooperation in the field of air transport;

—that it is necessary to conclude an agreement to secure regular air communications between the two countries

have appointed for this purpose their Plenipotentiaries as follows:

The President of the United States of America, His Excellency William Douglas Pawley, Ambassador Extraordinary and Plenipotentiary in Brazil, and His Excellency James McCauley Landis, Chairman of the Civil Aeronautics Board;

The President of the United States of Brazil, His Excellency Samuel de Sousa-Leao Gracie, Acting Minister for Foreign Affairs and His Excellency Major-Brigadier Armando Figueira Trompowsky de Almeida, Minister of State for Aeronautics;

[fol. 3509]

—3—

[Portuguese text omitted]

[fol. 3510]

—4—

who, after having exchanged their fullpowers, found to be in good and due form, agreed upon the following articles:

ARTICLE I

The Contracting Parties grant each other the right specified in the Annex hereto, in order that there may be established the regular air services described therein (hereinafter referred to as "agreed services").

ARTICLE II

1—Each of the agreed services may be inaugurated immediately or at a later date, at the option of the Contracting Party to whom the rights have been granted, but not before:

(a) the Contracting Party to whom the rights have been granted shall have designated an airline or airlines for the route or routes specified;

(b) the Contracting Party granting the rights shall have given the necessary operating permission to the airline or airlines concerned (which it shall do without delay, in accordance with the provisions of paragraph 2 of this article and of Article VI).

2—The airlines so designated may be required to satisfy the aeronautical authorities of the Contracting Party granting the rights, that they are in a position to fulfill the requirements prescribed by the laws and regulations normally applied by these authorities to the operation of commercial airlines.

[fol. 3511]

—5—

[Portuguese text omitted]

[fol. 3512]

—6—

ARTICLE III

1—The charges which either of the Contracting Parties impose or permits to be imposed on the airline or airlines

designated by the other Contracting Party for the use of airports and other facilities shall not be higher than would be paid for the use of such airports and facilities by its national aircraft engaged in similar international services.

2—Fuel, lubricating oils, and spare parts introduced into the territory of one Contracting Party or placed on board airplanes in its territory by the other Contracting Party, either for its own account or for the airlines designated by it, solely for use by the aircraft of the other Contracting Party, shall enjoy, with respect to customs duties, inspection fees and other charges imposed by the first Contracting Party, treatment not less favorable than that granted to the national airlines engaged in international air transport services or to the airlines of the most favored nation.

3—Aircraft of one of the Contracting Parties used in the operation of the agreed services and the supplies of fuel, lubricating oils, spare parts, normal equipment and aircraft stores retained on board such aircraft shall enjoy exemption from customs duties, inspection fees, and similar duties or charges in the territory of the other Contracting Party, even though these supplies be used by such aircraft on flights within that territory.

ARTICLE IV

Certificates of airworthiness, certificates of competency [fol. 3513]

—7—

[Portuguese text omitted]

—8—

[fol. 3514] and licenses issued or validated by one of the Contracting Parties and still in force, shall be recognized as valid by the other Contracting Party for the purpose of the operation of the agreed services. Each Contracting Party reserves the right however to refuse to recognize, for the purpose of flight above its own territory, certificates of competency and licenses granted to their own nationals by another State.

ARTICLE V

1—The laws and regulations of one Contracting Party, relative to the entry into its own territory, or departure therefrom of aircraft employed in international air navigation or to the operation of such aircraft within its own territory, shall be applied to aircraft of the airline or airlines of the other Contracting Party.

2—The laws and regulations of one Contracting Party as to the admission into its own territory or the departure therefrom of passengers, crew or cargo of aircraft (i.e., regulations relative to entry, clearance, immigration, passports, customs and quarantine) shall be applied to passengers, crew and cargo of aircraft of the airline or airlines designated by the other Contracting Party, within the territory of the first Contracting Party.

ARTICLE VI

Each of the Contracting Parties reserves the right to withhold or revoke the exercise of rights specified in the Annex of the present Agreement by an airline designated by the other Contracting Party when it is not satisfied that substantial ownership and effective control of the airline under reference is in the hands of nationals of the other Contracting Party, or in case of failure by that airline to [fol. 3515]

—9—

[Portuguese text omitted]

—10—

[fol. 3516] comply with the laws or regulations referred to in Article V above, or to fulfill the conditions under which the rights are granted in accordance with this Agreement and its Annex, or when planes put in operation are not manned by nationals of the other Contracting Party, except in cases where air crews are being trained.

ARTICLE VII

The present Agreement shall be registered with the Provisional International Civil Aviation Organization established by the Interim Agreement on International Civil

Aviation signed in Chicago on December 7, 1944, or its successor.

ARTICLE VIII

If either of the Contracting Parties considers it desirable to modify the terms of the Annex to this Agreement, as well as to exercise the rights specified in Article VI, it may request consultation between the aeronautical authorities of the two Contracting Parties, such consultation to be initiated within a period of 60 days from the date of the request. When these authorities agree that the Annex should be modified, or choose to exercise the rights set forth in Article VI, such decisions shall enter into force after having been confirmed by an exchange of notes through diplomatic channels.

ARTICLE IX

Except as otherwise provided in this Agreement, or its Annex, any dispute between the Contracting Parties relative to the interpretation or application of this Agreement, or its Annex, which cannot be settled through consultation shall be submitted for an advisory report to the Interim Council of the Provisional International Civil Aviation [fol. 3517]

—11—

[Portuguese text omitted]

—12—

[fol. 3518] Organization (in accordance with the provisions of Article III, Section 6 (8) of the Provisional Agreement on International Civil Aviation signed at Chicago on December 7, 1944)¹ or to its successor, unless the Contracting Parties agree to submit the dispute to an Arbitration Tribunal designated by agreement between the same Contracting Parties, or to some other person or body. The Contracting Parties will use their best efforts under the powers available to them to put into effect the opinion expressed in any such report.

¹ Executive Agreement Series 469; 59 Stat. 1516

ARTICLE X

If a general multilateral aviation convention, accepted by both Contracting Parties, enters into effect, this Agreement shall be modified in such a way so that its provisions will conform to those of the convention under reference.

ARTICLE XI

For the purposes of the present Agreement, and its Annex, except where the text provides otherwise:

(a) the term "aeronautical authorities" shall mean in the case of the United States of America the Civil Aeronautics Board and any person or agency authorized to perform the functions exercised at the present time by the Civil Aeronautics Board and, in the case of the United States of Brasil, the Air Minister and any person or agency authorized to perform the function exercised at present by the said Minister.

(b) the term "designated airlines" shall mean those airlines that the aeronautical authorities of one of the Contracting Parties have communicated in writing to the aeronautical authorities of the other Contracting Party that they are the airlines that it has designated in conformity with Article II of the present Agreement for the routes specified in such designation.

[fol. 3519]

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[Portuguese text omitted]

—14—

[fol. 3520] (c) the term "territory" shall have the meaning given to it by Articles 2 of the Convention on International Civil Aviation, signed at Chicago on December 7, 1944.¹

(d) the definitions contained in paragraph *a*, *b* and *d* of Article 96 of the Convention on International Civil Aviation signed at Chicago on December 7, 1944, shall be applied to the present Agreement.

¹ Treaties and Other International Acts Series 1591.

ARTICLE XII

Either of the Contracting Parties may at any time notify the other of its intention to terminate the present Agreement. Such a notice shall be sent simultaneously to the Provisional International Civil Aviation Organization or its successor. In the event such communication is made, this Agreement shall terminate six (6) months after the date of receipt of the notice to terminate, unless by Agreement between the Contracting Parties the communication under reference is withdrawn before the expiration of that time. If the other Contracting Party fails to acknowledge receipt, notice shall be deemed as having been received 14 days after its receipt by the Provisional International Civil Aviation Organization or its successor.

ARTICLE XIII

The present Agreement supersedes any acts, permissions, privileges or concessions already in existence at the time of the signing, granted for any reason by any of the Contracting Parties in favour of airlines of the nationality of the other Contracting Party.

[fol. 3521]

—15—

[Portuguese text omitted]

[fol. 3522]

—16—

ARTICLE XIV

The present Agreement will come into form thirty (30) days after the date of its signature.

In witness whereof the undersigned Plenipotentiaries have signed the present Agreement and affixed thereto their respective seals.

Done in the city of Rio de Janeiro on the sixth day of September, 1946; in two copies, in the Portuguese and English languages, both texts being equally authentic.

[SEAL] WILLIAM D. PAWLEY,
JAMES M. LANDIS

[SEAL] AMANDO TROMPOWSKY
S. DE SOUSA-LEAO GRACIE.

ANNEX

SECTION I.

The Government of the United States of Brazil grants to the Government of the United States of America the right to conduct air transport services by one or more air carriers of American nationality designated by the latter country on the routes, specified in Schedule I attached, which transit or serve commercially the territory of the United States of Brazil.

SECTION II.

The Government of the United States of America grants to the Government of the United States of Brazil the right to conduct air transport services by one or more air carriers of Brazilian nationality designated by the latter country on the routes, specified in Schedule II attached, which transit or serve commercially the territory of the United States of America.

SECTION III.

One or more air carriers designated by each of the Contracting Parties under the conditions provided in this Agreement will enjoy, in the territory of the other Contracting Party, rights of transit, of stops for non-traffic purposes and of commercial entry and departure for international traffic in passengers, cargo and mail at the points enumerated and on each of the routes specified in the schedules attached at all airports open to international traffic.

SECTION IV.

The appropriate aeronautical authorities of each of the Contracting Parties will consult from time to time, or at

[fol. 3525] the request of one of the Parties, to determine the extent to which the principles set forth in Section V below are being followed by the airlines designated by the Contracting Parties, so as to prevent an unfair proportion of traffic being diverted from any designated airline through violation of these principle or principles enunciated elsewhere in this Agreement, the Annex, or the Protocol of Signature.

SECTION V.

It is agreed between the Contracting Parties:

a) that the air transport capacity offered by the carriers of both countries should bear a close relationship to traffic requirements;

b) that in the operation of common sections of trunk routes the air carriers of the Contracting Parties should take into account their reciprocal interests so as not to affect unduly their respective Services;

c) that the services provided by a designated air carrier under this Agreement and its Annex shall retain as their primary objective the provision of capacity adequate to the traffic demands between the country of which such air carrier is a national and the country of ultimate destination of the traffic;

d) that the right to embark and to disembark at points in the territory of the other country international traffic destined for or coming from third countries at a point or points specified in the Schedules attached, shall be applied in accordance with the general principles of orderly development to which both government subscribe and shall be subject to the general principle that capacity shall be related:

1. to traffic requirements between the country of origin and the countries of destination;

[fol. 3526] 2. to the requirements of through air line operation, and

3—to the traffic requirements of the area through which the airline passes after taking account of local and regional services.

SECTION VI.

It is agreed between the Contracting Parties that, where the onward carriage of traffic by an aircraft of different size from that employed on the earlier stage of the same route (hereinafter referred to as "change of gauge") is justified by reason of economy of operation, and where such change of gauge is to be made at a point in the territory of the United States of America or the United States of Brazil, the smaller aircraft will operate only in connection with the larger aircraft arriving at the point of change, so as to provide a connection service which will thus normally wait on the arrival of the larger aircraft, for the primary purpose of carrying onward those passengers who have travelled to the United States of America or the United States of Brazil in the larger aircraft to their ultimate destination in the smaller aircraft. It is likewise understood that the capacity of the smaller aircraft shall be determined with primary reference to the traffic travelling in the larger aircraft normally requiring to be carried onward. Where there are vacancies in the smaller aircraft such vacancies may be filled with passengers from the United States of America or the United States of Brazil respectively without prejudice to the local traffic, exclusive of cabotage.

SECTION VII.

a) The determination of rates in accordance with the following paragraphs shall be made at reasonable levels, due regard being paid to all relevant factors, such as cost of operation, reasonable profit, and the rates charged by any other carriers, as well as the characteristics of each service.

—21—

[fol. 3527] b) The rates to be charged by the air carriers of either Contracting Party between points in the territory of the United States and points in Brazilian territory referred to in the attached Schedule shall, con-

sistent with the provisions of the present Agreement and its Annex, be subject to the approval of the aeronautical authorities of the Contracting Parties, who shall act in accordance with their obligations under the present Annex, within the limits of their legal powers.

c) Any rate proposed by the air carrier or carriers of either Contracting Party shall be filed with the aeronautical authorities of both Contracting Parties at least thirty days before the proposed date of introduction; provided that this period of thirty days may be reduced in particular cases if so agreed by the aeronautical authorities of both Contracting Parties.

d) The Civil Aeronautics Board of the United States having approved the traffic conference machinery of the International Air Transport Association (hereinafter called IATA), for a period of one year beginning in February 1946, any rate agreements concluded through this machinery during this period and involving United States air carriers, will be subject to approval of the Board. If agreements concluded through this machinery may also be required to be subject to the approval of the aeronautical authorities of the United States of Brazil pursuant to the principles enunciated in paragraph (b) above.

e) The Contracting Parties agree that the procedure described in paragraphs (f), (g) and (h) of this Section shall apply.

1—If during the period of the Civil Aeronautics Board's approval of the IATA traffic conference machinery, either any specific rate agreement is not approved, within a reasonable time by either Contracting Party, or a conference of IATA is unable to agree on a rate, or

2— at any time no IATA machinery is applicable, or

3—if either Contracting Party at any time withdraws or

[fol. 3528] fails to renew its approval of that of the IATA traffic conference machinery relevant to this Section.

f) In the event that power is conferred by law upon the aeronautical authorities of the United States to fix fair and economic rates for the transport of persons and property by air on international services and to suspend proposed rates in a manner comparable to that in which the Civil Aeronautics Board at present is empowered to act with respect to such rates for the transport of persons and property by air within the United States, each of the Contracting Parties shall thereafter exercise its authority in such manner as to prevent any rate or rates proposed by one of its carriers of services from the territory of one Contracting Party to a point or points in the territory of the other Contracting Party from becoming effective, if in the judgment of the aeronautical authorities of the Contracting Party whose air carrier or carriers is or are proposing such rate, that rate is unfair or uneconomic.

If one of the Contracting Parties on receipt of the notification referred to in paragraph (e) above is dissatisfied with the rate proposed by the air carrier or carriers of the other Contracting Party, it shall so notify the other Contracting Party prior to the expiry of the first fifteen of the thirty days referred to, and the Contracting Parties shall endeavour to reach agreement on the appropriate rate.

In the event that such agreement is reached, each Contracting Party will exercise its best efforts to put such rate into effect as regards its air carrier or air carriers.

If agreement has not been reached at the end of the thirty day period referred to in paragraph (e) above, the proposed rate may, unless the aeronautical authorities of the country of the air carrier concerned see fit to suspend its application, go into effect provisionally pending the

[fol. 3529] settlement of any dispute in accordance with the procedure outlined in paragraph (h) below.

g) Prior to the time when such power may be conferred by law upon the aeronautical authorities of the United States, if one of the Contracting Parties is dissatisfied with any rate proposed by the air carrier or carriers of either Contracting Party for services from the territory of one

Contracting Party to a point or points in the territory of the other Contracting Party, it shall so notify the other prior to the expiry of the first fifteen of the thirty day period referred to in paragraph (e) above, and the Contracting Parties shall endeavour to reach agreement on the appropriate rate.

In the event that such agreement is reached each Contracting Party will use its best efforts to cause such agreed rate to be put into effect by its air carrier or carriers.

It is recognized that if no such agreement can be reached prior to the expiry of such thirty days, the Contracting Party raising the objection to the rate may take such steps as it may consider necessary to prevent the inauguration or continuation of the service in question at the rate complained of.

h) When in any case under paragraph (f) and (g) above the aeronautical authorities of the two Contracting Parties cannot agree within a reasonable time upon the appropriate rate after consultation initiated by the complaint of one Contracting Party concerning the proposed rate or an existing rate of the air carrier or carriers of the other Contracting Party, upon the request of either, both Contracting Parties shall submit the question to the Provisional International Civil Aviation Organization or its successor for an advisory report, and each Party will use its best efforts under the powers available to it to put into effect the opinion expressed in such report.

[fol. 3530]

—24—

SECTION VIII.

Changes made by either Contracting Party in the routes described in the Schedules attached except those which change the points served by these airlines in the territory of the other Contracting Party shall not be considered as modifications of the Annex. The aeronautical authorities of either Contracting Party may therefore proceed unilaterally to make such changes, provided, however, that notice of any change is given without delay to the aeronautical authorities of the other Contracting Party.

If such other aeronautical authorities find that, having regard to the principles set forth in Section V of the present Annex, interests of their air carrier or carriers are prejudiced by the carriage by the air carrier or carriers of the First Contracting Party of traffic between the territory of the second Contracting Party and the new point in the territory of a third country, the authorities of the two Contracting Parties shall consult with a view to arriving at a satisfactory agreement.

SECTION IX.

After the present Agreement comes into force, the aeronautical authorities of both Contracting Parties will exchange information as promptly as possible concerning the authorizations extended to their respective air carriers designated to render service on the route mentioned in the annexed schedules or any part thereof. This will specially include copies of authorizations granted together with such modifications as may occur and any annexes.

[fols. 3531-37]

—25-31—

[Portuguese text omitted]

[fol. 3538]

—32—

PROTOCOL OF SIGNATURE

It appeared in the course of negotiations leading up to the conclusion of the Agreement on air services between the United States of America and the United States of Brazil signed at Rio de Janeiro today that the representatives of the two Contracting Parties were in agreement on the following points:

1—The air carriers of the two Contracting Parties operating on the routes described in the Annex of said Agreement shall enjoy fair and equal opportunity for the operation of the said route.

2—When it is verified to be temporarily impossible for the carrier or carriers of one of the Contracting Parties, on a route, to take equal advantage of the opportunities referred to in 1, above, the situation thus arising will be mutually examined by both Governments for the purpose

of assisting the said carrier or carriers to increasingly participate in the services contemplated on a fair and equitable basis.

3.—It is recognized that the determination of tariffs to be applied by an air carrier of one Contracting Party between the territory of the other Contracting Party and a third country is a complex question, the overall solution of which cannot be sought through consultation between only two countries. It is noted, furthermore, that the method of determining such tariffs is now being studied by the Provisional International Civil Aviation Organization. It is understood under these circumstances:

a) —That, pending the acceptance by both parties of any recommendations which the Provisional International Civil Aviation Organization may make after its study of this matter, such tariffs shall be subject to consideration under the provisions of Section V (b) of the Annex to the Agree-

—33—

[fol. 3539] ment.

b) —That in case the Provisional International Civil Aviation Organization fails to establish a means of determining such rates satisfactory to both Contracting Parties, the consultation provided for in Article VIII of the Agreement shall be in order.

[fols. 3540-41]

—34-35—

[Portuguese text omitted]

[fol. 3542]

—36—

SCHEDULE 1

AMERICAN ROUTES TO BRAZIL AND ACROSS BRAZILIAN TERRITORY

Part 1. TO BRAZIL:

- a) From the United States of America, via intermediate points in the Caribbean, South America, to Manaus Goiania and Rio de Janeiro or Sao Paulo; in both directions.

Remark:—While the route Manaus Goiania-Rio de Janeiro is not ready for in-

ternational operation, it will be replaced by the following route: "From the United States of America, via intermediate points in the West Coast of South America, to Campo Grande, Sao Paulo and Rio de Janeiro; in both directions."

Part 2. ACROSS BRAZIL:

- a) From the United States of America, via intermediate points in the Caribbean and South America, to Belém, Natal and beyond to Africa; in both directions. (In the event meteorological conditions in the North Atlantic so require, this route may be used also to Europe).
- b) From the United States of America via intermediate points in the Caribbean and South America, to Belém-Barreiras-Rio de Janeiro-Sao Paulo, Porto Alegre and beyond; in both directions.
- c) From the United States of America via intermediate points in the Caribbean, South America to Manaus, Goiânia, Guará and beyond, in both directions.

Remark:—This route shall be put into operation only when the Manaus-Goiânia-Rio de Janeiro route is ready.

[fol. 3543]

[fol. 3544]

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SCHEDULE 11
BRAZILIAN ROUTES TO THE UNITED STATES
OF AMERICA AND ACROSS AMERICAN
TERRITORY

1st. Part — TO THE UNITED STATES OF AMERICA:

1. From the United States of Brazil, via intermediate points in South America and in the Caribbean, inclusive of Puerto Rico, to New York or Washington, (alternative), in both directions.
2. From the United States of Brazil, via intermediate points in South America and in the Caribbean, inclusive of Puerto Rico, to Miami and Chicago, in both directions.
3. From the United States of Brazil, via intermediate points in South America and in the Caribbean, inclusive of Puerto Rico, to Miami and New Orleans, in both directions.

2nd. Part — ACROSS THE UNITED STATES OF AMERICA:

1. From the terminal points named in the routes mentioned above by any reasonably direct route to points in third countries, in both directions.

[fols. 3545-46]

—39—

[Portuguese text omitted]

3612

[fol. 3547]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 401

TREATIES AND OTHER INTERNATIONAL ACTS
SERIES 2190

AIR TRANSPORT SERVICES

Agreement between the
UNITED STATES OF AMERICA
and BRAZIL

Amending Agreement of
September 6, 1946

- Effected by Exchange of Notes
Signed at Rio de Janeiro December 30,
1950
- Entered into force December 30, 1950

(Emblem)

[fol. 3548]

DEPARTMENT OF STATE

PUBLICATION #132

[Literal print]

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1951

*For sale by the Superintendent of Documents,
U.S. Government Printing Office
Washington 25, D.C.: Price 5 cents*

[fol. 3459]

*The American Ambassador to the Brazilian Minister
for Foreign Affairs*

EMBASSY OF THE
UNITED STATES OF AMERICA
Rio de Janeiro, December 30, 1959

No. 242

EXCELLENCY:

I have the honor to refer to the Air Transport Agreement between the United States of Brazil and the United States of America, dated September 6, 1946,¹ and to the agreement reached on October 6, 1959, during consultation between the aeronautical authorities of Brazil and of the United States, which reads as follows:

"It was agreed that the route schedules of the bilateral agreement will be amended by an exchange of diplomatic notes in order to accomplish the following modifications:

"(a) Schedule I, Part I, will be amended to read in its entirety as follows:

From the United States of America, via intermediate points in the Caribbean, South America, to Manaus, Goiania and Rio de Janeiro and or Sao Paulo; in both directions.

Remark: While the route Manaus Goiania Rio de Janeiro is not ready for international operation, it will be replaced by the following route: "From the United States of America, via intermediate points in the West Coast of South America to Peru and or Bolivia and thence to Sao Paulo and or Rio de Janeiro; in both directions".

"(b) Schedule II, 1st Part, I, will be amended to read in its entirety as follows:

From the United States of Brazil, via intermediate points in South America and in the Caribbean,

¹ Treaties and Other International Acts Series 1900, 61 Stat., Pt. 4, p. 4121.

inclusive of Puerto Rico, to New York and/or Washington; in both directions."

The above agreement is acceptable to my Government, and upon receipt of a note confirming it on behalf of the Government of the United States of Brazil, the Government of the United States of America will consider Schedule I and Schedule II of the Annex to the Air Transport Agreement modified accordingly.

[fol. 3550]

Please accept, Excellency, the renewed assurances of my highest and most distinguished consideration.

HERSCHEL V. JOHNSON

His Excellency

RAUL FERNANDES

Minister for Foreign Affairs of Brazil

[fol. 3551]

Translation.

MINISTRY OF FOREIGN AFFAIRS,

RIO DE JANEIRO.

December 30, 1950.

DE/DAI/676/588. (22)

Air Transport Agreement between Brazil and the United States of America.
Modification of route schedules.

MR. AMBASSADOR,

I have the honor to acknowledge receipt of note No. 242 of this date, through which Your Excellency informs the Ministry of Foreign Affairs that the Government of your country, in view of what was established in the third consultation, ending on October 6 of this year, between the aeronautical authorities of Brazil and the United States of America, agrees that route Schedules I and II, annexed to the Air Transport Agreement signed by the two countries on September 6, 1946, shall be modified as follows:

"a) Schedule I, Part I, will be amended to read as follows:

"From the United States of America, via intermediate points in in the Caribbean, South America, to Manaus, Goiânia and Rio de Janeiro and or Sao Paulo, in both directions. Remark: While the route Manaus-Goiânia-Rio de Janeiro is not ready for operation, it will be replaced by the following route:

"From the United States of America, via intermediate points in the West Coast of South America, to Peru and or Bolivia and thence to Sao Paulo and or Rio de Janeiro, in both directions".

b) Schedule II, 1st Part, 4, will be amended to read as follows:

"From the United States of Brazil, via intermediate points in South America and in the Caribbean, inclusive of Puerto Rico, to New York and or Washington, in both directions".

2. In reply, I take pleasure in confirming to Your Excellency the acceptance by the Brazilian Government of the conclusions reached on the matter by the aeronautical authorities of both countries, considering, likewise, that route Schedules I and II, annexed to the Brazil United States of America Air Transport Agreement, are modified as above stated.

I avail myself of the opportunity to renew to Your Excellency the assurances of my highest consideration.

RAUL FERNANDES

His Excellency HERSCHEL V. JOHNSON,

Ambassador of the United States of America,

3616

[fol. 3553]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 402

TREATIES AND OTHER INTERNATIONAL ACTS
SERIES 4143

AIR TRANSPORT SERVICES

Agreement Between the
UNITED STATES OF AMERICA
and BRAZIL

Amending Agreement of
September 6, 1946,
as Amended

Effected by Exchange of Notes
Signed at Washington December 1, 1958

(Emblem)

[fol. 3554]

DEPARTMENT OF STATE

[Literal print]

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Washington 25, D.C. : Price 5 cents*

[fol. 3555]

BRAZIL

Air Transport Services

*Agreement amending the agreement of September 6, 1946,
as amended.*

Effected by exchange of notes.

Signed at Washington December 1, 1958.

Entered into force December 1, 1958.

The Secretary of State to the Brazilian Ambassador

DEPARTMENT OF STATE

WASHINGTON

Dec 1-1958

EXCELLENCY:

I have the honor to refer to the civil aviation consultation which has taken place in Washington between September 19, 1957, and November 5, 1958, pursuant to Article VIII of the Air Transport Agreement of 1946 as amended, between the United States of America and Brazil. This consultation concluded with the delegations of the United States and Brazil having recommended to their respective Governments the deletion of Schedule I and Schedule II of the Annex to the Air Transport Agreement and the insertion of a new Route Schedule, as follows:

TIAS 1900,

2190,

61 Stat., pt.

4, p. 4130,

2 UST 460.

ROUTE SCHEDULE

A. An airline or airlines designated by the Government of the United States of America shall be entitled to operate air services on each of the air routes specified via intermediate points in both directions and to make scheduled landings in Brazil at the points specified in this paragraph:

1. From the United States of America, via intermediate points in the Caribbean, Central America, and countries on the West Coast of South America to Sao Paulo and Rio de Janeiro.

2. From the United States of America, via intermediate points in the Caribbean and South America to Belém, Natal and beyond to Africa.
3. From the United States of America, via intermediate points in the Caribbean, Panama, and countries on the North and East Coasts of South America to Belém or Manaus, Brasília, Rio de Janeiro, São Paulo, Porto Alegre and beyond Brazil to Uruguay and Argentina and beyond.
4. From the United States of America, via intermediate points in Middle America and countries on the North and East Coasts of South America to Belém or Manaus, Brasília, Rio de Janeiro, São Paulo, Porto Alegre and beyond Brazil to Uruguay and Argentina.

B. An airline or airlines designated by the Government of the United States of Brazil shall be entitled to operate air services on each of the air routes specified via intermediate points in both directions and to make scheduled landings in the United States of America at the points specified in this paragraph:

1. From the United States of Brazil, via intermediate points in South America and Middle America to Los Angeles and Honolulu and beyond to Japan and beyond.
2. From the United States of Brazil, via intermediate points in South America and the Caribbean, including Puerto Rico, to Miami and Chicago and beyond to Canada.
3. From the United States of Brazil, via intermediate points in South America and the Caribbean, including Puerto Rico, to Washington and New York and beyond to Canada.

C. Any point or points on any route or routes contained in this Route Schedule may be omitted in either or both directions at the option of the airline designated to operate such route or routes.

D. The airlines designated by one contracting party in accordance with the provisions of the Agreement will be permitted to operate other services across the territory of the other contracting party without obligation of landing by the most direct route between the points to be served as long as the safety of operation is not affected. In any case, the use of uneconomic and circuitous routings shall be avoided.

E. Flights of a designated airline which do not serve all the points granted in the routes contained in the Route Schedule may be operated by the most direct route between the points to be served so long as the safety of operation is not affected. In any case, the use of uneconomic and circuitous routings shall be avoided.

[fol. 3557] F. The airlines designated in accordance with the provisions of the Agreement by one contracting party will be permitted to land for non-traffic purposes in the territory of the other contracting party. Every airport in the territory of one of the contracting parties which is open to public use by its national aircraft shall be open under uniform conditions to the aircraft of the other contracting party for such non-traffic purposes.

G. For the purposes of this Annex to the Agreement, the term "Middle America" is interpreted as including only those countries situated on the mainland between South America and the continental United States of America.

The above amendment of the Air Transport Agreement is acceptable to my Government, and upon receipt of a note indicating acceptance on behalf of the Government of the United States of Brazil, the Government of the United States of America will consider the Route Schedules of the Annex to the Air Transport Agreement modified accordingly, such modification to be effective from the date of Your Excellency's reply.

Accept, Excellency, the renewed assurances of my highest consideration.

For the Secretary of State:

WILLIAM P. SNOW

William P. Snow

His Excellency

ERNANI DO AMARAL PEIXOTO,
Brazilian Ambassador.

[fols. 3558-59]

[Portuguese text omitted]

[fol. 3560]

Translation

EMBASSY OF THE UNITED STATES OF BRAZIL

Washington, December 1, 1958.

348/588.(22).

MR. SECRETARY OF STATE:

I have the honor to acknowledge the receipt of Your Excellency's note of December 1, 1958, the text of which, in translation, is as follows:

[For the English language text of the note, see *ante*, p. 3617.]

2. In reply, I inform Your Excellency that the Brazilian Government accepts the terms of the above-mentioned note, which, together with this one, shall constitute an agreement, in force from today's date, for amending the Annex to the Air Transport Agreement between the United States of Brazil and the United States of America.

I avail myself of the opportunity to renew to Your Excellency the assurances of my highest consideration.

For the Ambassador of Brazil:

M G VALENTE

Maury Gurgel Valente

Counselor

His Excellency

JOHN FOSTER DULLES,

Secretary of State of the

United States of America.

[fol. 356F]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 403

A G R E E M E N T

AGREEMENT made this 17th day of March, 1939, between WESTERN AIR EXPRESS CORPORATION (hereinafter called "Western") and UNITED AIR LINES TRANSPORT CORPORATION (hereinafter called "United"), both Delaware corporations.

WITNESSETH:

RECITALS

A. Western operates Route AM-13 between San Diego, California and Salt Lake City, Utah, and United operates Route AM-1 between Newark, New Jersey, and San Francisco, California, and both parties transport mail, passengers and express over their respective routes, which intersect at Salt Lake City, Utah.

B. For about twelve years the parties hereto and their predecessors have operated such routes and have maintained connecting air transportation schedules via Salt Lake City, between Los Angeles, California and points east of Salt Lake City on United's Route AM-1; and incident to such connecting air schedules through passenger and express transportation has long been and is being sold by each line over the connecting route of the other, in conformity with the universal practice of all air carriers maintaining connecting schedules.

C. United owns nine Douglas DST sleeper airplanes and Western owns two Douglas DST sleeper airplanes substantially identical with United's aforementioned airplanes, which sleeper equipment the parties hereto operate over their respective routes.

D. It is in the public interest that the parties hereto lease to each other at Salt Lake City, from time to time, at the approximate cost of such leasing, certain of their DST sleeper planes, to the end that sleeper airplane passengers traveling on connecting schedules over the respective routes

of United and Western to and from Los Angeles and points east of Salt Lake City may not be required to deplane from a sleeper plane at Salt Lake City and presently enplane on identical sleeper equipment at that point to continue their air journey on a connecting schedule over the connecting line.

E. Such leasing of planes by each party to the other will improve the efficiency of operations of each party and will improve the character of service offered to the public.

F. Such deplaning occurs at inconvenient hours of the night and the early morning, often under adverse weather conditions, is detrimental to the comfort and convenience of the air passengers, and tends to increase operating and maintenance costs of the parties hereto.

G. The aforementioned detrimental deplaning by air sleeper passengers at Salt Lake City cannot be avoided except by the daily interchange and leasing of such sleeper airplanes to and by United and Western at Salt Lake City.

H. It is in the public interest that such leasing of sleeper airplanes be made operative upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and of the covenants herein contained, **IT IS AGREED:**

1. *Leasing of Planes:* The parties hereto shall lease to each other at Salt Lake City the DST sleeper airplanes owned by them respectively from time to time in order to avoid the above described deplaning at Salt Lake City by air sleeper passengers traveling between Los Angeles and points east of Salt Lake City on connecting schedules of United and Western over their separate respective routes.

2. *No Off-Line Operation:* United shall conduct no operation hereunder excepting over its own route or routes and Western shall conduct no operation hereunder excepting over its own route or routes.

3. *Crews:* The crew of each airplane used in conducting connecting schedule service under this agreement shall consist of one pilot, one co-pilot and one stewardess, who

shall be employed and serve as heretofore only on the routes of their respective employers and shall be subject to direction and control only by their respective employers.

4. *Place of Operation of Leased DST Airplanes:* Western shall not operate any DST airplane owned by United and leased to Western hereunder except on Route AM-13 between Salt Lake City and San Diego, except in an emergency with the consent of United. I

United shall not operate any DST airplane owned by Western and leased to United hereunder except on Route AM-1 between San Francisco and Newark, except in an emergency with the consent of Western.

5. *Connecting Sleeper Schedules:* The connecting sleeper schedules of the parties hereto at Salt Lake City, for which sleeper airplanes are to be leased hereunder, shall be determined by mutual agreement and shall not exceed two each way daily excepting by mutual consent of the parties hereto.

6. *Number of Sleeper Airplanes:*

(a) To accomplish the aforementioned sleeper airplane leasing each of the parties shall deliver to the other at Salt Lake City, for such sleeper schedules connecting at that point as shall be mutually agreed upon, the sleeper airplane which has been operated to Salt Lake City by the originating line.

(b) United's operations hereunder shall be so conducted by it that subject to prevention by unlyable weather conditions, Acts of God, or conditions beyond its reasonable control, United shall at all times make available to Western such DST sleeper airplanes as may reasonably be required by Western to maintain that number of sleeper schedules which Western could, in the absence hereof, maintain with the DST sleeper airplanes now owned by it.

7. *Delivery of DST Airplanes:* Delivery of DST airplanes used for connecting schedule sleeper service under this agreement shall be made by one party to the other at Salt Lake City on each trip, but delivery may be made at

Burbank when agreed upon by both parties. Each party, upon accepting delivery of a DST airplane from the other, shall execute and deliver to the other a receipt therefor in the following form:

RECEIVED from one DST air-
(the delivering life)
plane U. S. License No., complete and in
good operating condition, at this
..... day of 1939, at M.

(name of receiving line)

By

[fol. 3564] - 8. *Authority to Sign Receipts and Accept Deliveries*: Prior to the effective date of this agreement, each party shall give to the other a letter signed by its president or a vice president, setting forth the names and titles of the persons in its employ who are authorized to sign receipts for DST airplanes, and also setting forth the names and titles of persons authorized to accept delivery of DST airplanes and of receipts executed by the other party. Such letters may be amended from time to time by the president or a vice president of the party making the amendment, and such amendments shall become effective upon delivery thereof to the station managers of the other party located at Salt Lake City and Burbank.

9. *Changes in Cabin Arrangements:* The cabin arrangements of the DST airplanes owned by the parties hereto are substantially identical and no material change shall be made in such cabin arrangements unless mutually agreed upon by the parties hereto.

10. *Designation of Owner and Operator of Airplane:* While operating a leased airplane hereunder, each party shall display on the forward cabin wall of such airplane, visible to passengers, a sign of a style and size mutually agreed upon, disclosing the name of the owner and the name of the operator of the airplane.

11. *Change in Airplane Equipment and Accessories:* No material change shall be made in the engines, propellers,

1

instruments, accessories and operating equipment of the DST airplanes owned by the parties hereto, subsequent to the effective date of this agreement, unless mutually agreed upon by the parties hereto. If any such changes are agreed upon, each party shall complete such agreed changes with respect to its DST airplanes within a reasonable time; provided that Western may, with respect to its DST airplanes, require United to make such changes for it, in which event Western shall pay to United the reasonable cost of making such changes which cost shall be deemed to be the cost to United for the required materials and for requisite direct labor plus a charge for overhead not to exceed one hundred per cent of such direct labor cost.

12. *Tickets:* Tickets sold by either party hereto for connecting schedule transportation via Salt Lake City shall distinctly show that the trip east of Salt Lake City is being made via United and the trip west of Salt Lake City is being made via Western, all in accordance with the standard forms of interline tickets now in use by the parties hereto covering the present connecting schedule transportation via Salt Lake City.

13. *No Control over Other Party:* The scheduled times of arrival and departure of connecting sleeper airplane schedules at Salt Lake City shall be determined in the public interest by the parties hereto from time to time to provide convenient and advantageous hours for the departure and arrival of passengers, mail and express, and as may be required from time to time by the Postmaster General of the United States pursuant to the provisions of Section 405(e) of the Civil Aeronautics Act of 1938, or amendment thereof. Each party shall have the exclusive right, subject to the orders of the Civil Aeronautics Authority or other governmental authority having jurisdiction thereof, to fix the scheduled stops to be made on its route or routes, and nothing contained in this agreement shall be construed to grant to either party any right whatever (a) to determine whether any trip of the other party shall be operated or cancelled either in whole or in part, or (b) to exercise any control over any operation or business or affairs of or interest in the other party.

14. *Rental for Airplanes:* There will be no rental paid by either party to the other as reimbursement for depreciation expense of the lessor with respect to DST airplanes (exclusive of engines and propellers) leased hereunder.

On or before the fifth day of each month, each lessee shall certify to the lessor the total number of hours the lessee operated, during the preceding month, DST airplanes owned by the lessor.

15. *Rental for Engines:* The lessee of twin row engines leased hereunder shall pay to the lessor thereof the reasonable rental of such leased engines at the rate of \$2.88 for each hour of operation of each leased S3-C-G engine by the lessee thereof; \$2.65 for each hour of operation of each leased S1-C-G engine by the lessee thereof; and \$2.45 for each hour of operation of each leased SB-3-G engine by the lessee thereof, which rates are based on a depreciation [fol. 3566] rate of 4,000 hours of use, less a salvage value of \$500.00 on each engine.

On or before the fifth day of each month, each lessee shall certify to the lessor the total number of hours the lessee operated, during the preceding month, twin-row engines owned by the lessor.

On or before the twentieth day of each month, the parties hereto shall settle and pay to each other their engine rental accounts for the preceding month as hereinabove determined.

16. *Rental for Propellers:* In addition to the engine rental provided for above, the lessee of airplane and engines leased hereunder, shall pay to the lessor thereof, the reasonable rental for propellers, (the useful life of which is substantially different than the depreciable life of the airplanes and engines of which they are a part) at a rate of \$.54 for each hour of operation of each of such propellers by the lessee thereof.

On or before the fifth day of each month, each lessee shall certify to the lessor, the total number of hours the lessee operated during the preceding month, propellers owned by the lessor.

On or before the twentieth day of each month, the parties hereto shall settle and pay to each other, their propeller rental accounts for the preceding month as hereinabove determined.

17. *Routine Overhauls of Airplanes and Equipment:* Each party shall overhaul or cause to be overhauled the DST airplanes, including propellers, instruments, accessories and equipment which it may own, in accordance with its standard overhaul procedure. In no event shall the character or extent of such overhaul procedure be less than the minimum standards required by the Civil Aeronautics Authority. However, United, at the request of Western, will overhaul such DST airplanes owned by Western in the same manner employed by United with respect to similar equipment owned by it. United will perform such overhauls for Western at a reasonable cost, which shall be deemed to be the cost to United for the direct labor involved, plus a charge for overhead not to exceed one hundred per cent thereof and the cost to United for materials required, plus a charge for overhead not to exceed twenty-five per cent thereof.

In addition to the engine and propeller rental provided [fol. 3567] for above, the lessee of DST airplanes leased hereunder shall pay to the lessor thereof the reasonable overhaul charge applicable to such leased airplanes at the rate of \$6.67, for each hour of operation of each of such leased airplanes by the lessee thereof.

On or before the twentieth day of each month, the parties hereto shall settle and pay to each other their airplane overhaul accounts for the preceding month as hereinabove determined.

18. *Overhauls of Engines:* Each party shall overhaul or cause to be overhauled the twin row engines and engine accessories, including carburetors, spark plugs, magnetos, etc., owned by it in accordance with its standard overhaul procedure. In no event shall the character or extent of such overhaul procedure be less than the minimum standards required by the Civil Aeronautics Authority. However, United, at the request of Western, will overhaul Western

twin-row engines and engine accessories in the same manner employed by United with reference to the twin-row engines owned by United. United will perform such overhauls for Western at a reasonable cost which shall be deemed to be the cost to United for the direct labor involved, plus a charge for overhead not to exceed one hundred per cent thereof and the cost to United for the materials required, plus a charge for overhead not to exceed twenty-five per cent thereof.

In addition to the engine rental, propeller rental, and airplane overhaul charge provided for above, the lessee of twin-row engines leased hereunder shall pay to the lessor thereof the reasonable engine overhaul charge applicable to such leased engines at the rate of \$2.46 for each hour of operation of each of such leased engines by the lessee thereof.

On or before the twentieth day of each month, the parties hereto shall settle and pay to each other their engine overhaul accounts for the preceding month as hereinabove determined.

19. *Replacement of Parts:* The entire cost of necessary replacements of major parts of airplanes, such as wings, control surfaces, propellers, instruments, airplane accessories, engine accessories, landing gear and tires (so far as such replacements may be due to wear and tear arising out of the routine operation of the airplanes) shall be borne by the owner of the airplanes on which such replacements [fol. 3568] are made. In the event any such replacement shall be made to a leased airplane by the lessee thereof, the owner shall pay the lessee the reasonable cost thereof which shall be deemed to be the cost to the lessee of the replacement part, and the cost to the lessee for the direct labor involved in making such replacement, plus a charge for overhead not to exceed one hundred per cent of such direct labor cost.

On or before the twentieth day of each month the parties hereto shall settle and pay to each other their parts replacements accounts for the preceding month as hereinabove determined.

20. *Inspection and Maintenance Service:* The airplane and engine inspection and maintenance service performed by each party hereto with respect to all DST airplanes, propellers, instruments, accessories and equipment owned by either United or Western shall be uniform and shall be not less in character or extent than the minimum standards required by the Civil Aeronautics Authority. United shall make such inspection and render such service at all points, except Burbank. For this purpose Western shall maintain five employees at Burbank per round-trip sleeper airplane schedule operated by Western and at least three of such employees shall be competent mechanics.

No charge shall be made by either party against the other for inspection or maintenance service, unless at any time the work of this character required to be done by Western at Burbank shall be of such magnitude that such work cannot reasonably be performed by the aforementioned employees of Western, and in that event United shall promptly reimburse Western for any expenditure made by it for the required additional labor plus a charge for overhead not to exceed one hundred per cent of such direct labor cost.

21. *Ferry Trips:* On all ferry trips required to provide airplanes where needed, the hours flown thereon shall be included in the monthly total of the company operating such ferry trips, and shall be taken into consideration in the same manner as pay trips in determining rentals and charges as hereinabove provided.

22. *Gasoline and Oil:* Immediately prior to delivery of [fol. 2569] each airplane operated on connecting schedule service hereunder, the delivering air line, at its own cost, shall fill the gasoline tanks to the extent of 420 gallons and the oil tanks to the extent of 42 gallons. Upon the termination of this agreement, each airplane in the possession of a party hereto as lessee shall be returned to the other party at Salt Lake City with 420 gallons of gasoline in the airplane tanks and 42 gallons of oil in the oil tanks.

23. *Oil Costs:* The lessee of twin-row engines leased hereunder shall also pay to the lessor thereof the cost of oil

placed in such engines at 120 hours intervals after drainage, at the rate of \$.068 per hour of operation of each of such engines by the lessee thereof.

The lessor of twin-row engines hereunder shall reimburse the lessee the lessee's cost of oil placed in the lessor's engines by the lessee, after drainage.

On or before the twentieth day of each month the parties hereto shall settle and pay to each other their oil accounts for the preceding month as hereinabove determined.

24. *Damage to Airplanes:* Each party hereto shall have the right to inspect each airplane before accepting delivery from the other party, and the acceptance of such airplane shall constitute an admission by the receiving party that the airplane, including engines, propellers, accessories and equipment, is in good operating condition. Each party shall be responsible for all damage to airplanes in its possession caused by, or arising out of crash, fire, wind storm, land damage, or other casualty, and if such airplane belongs to the other party, the cost of repairing the same shall be paid, or caused to be paid or borne by the party having possession of the airplane when the damage occurred, and if such damage constitutes the destruction of a leased airplane, the party having possession thereof at the time of destruction shall pay or cause to be paid to the owner an amount equaling:—

- (a) (1) The value of the airplane and equipment, excluding engines and propellers, as set forth in [fol. 3570] Exhibit "A", attached hereto, less a deduction at pro rata of one per cent per month from February 1, 1939 to the date of destruction; or in an appropriate case.
- (2) The value of the airplane and equipment, excluding engines and propellers, as set forth in an amendment to Exhibit "A" which may be filed by either party with the other with respect to any airplane subsequently placed under this agreement, less a deduction at pro rata of one

- per cent per month from the effective date of such amendment to the date of destruction; plus
- (b) The original cost price of the engine less a deduction of \$2.88 for each hour of operation of a S3 C G engine; \$2.65 for each hour of operation of a S1 C G engine, and \$2.45 for each hour of operation of a S13 B G engine, from the date of initial operation to the date of destruction, which rates are based on a depreciation rate of 4,000 hours of use less a salvage value of \$500.00 on each engine.
 - (c) The original cost price of the propellers less a deduction of \$.54 per operated hour per propeller from the date of initial operation to the date of such destruction.

And the party paying or causing to be paid such amount shall thereupon become the owner of such airplane and equipment, including engines and propellers and all salvage thereof.

25. *Change of Radio Equipment:* Inasmuch as the parties do not operate on the same radio frequency, each party accepting delivery of an airplane hereunder shall make the necessary change of radio equipment and shall then deliver the removed radio equipment to the other party.

26. *Liability and Property Damage Insurance:* During the term of this agreement, each of the parties hereto shall keep in full force and effect at its expense, insurance policies, written by responsible insurance companies, insuring and covering each of the parties as their interests may appear against liability for loss, injury, damage or claims arising out of or in connection with injuries to or deaths of passengers, injuries to or deaths of third persons and damage to or destruction of property caused by or arising out of the operation of or possession of any airplane under this agreement, and such insurance shall be so maintained by each party in the following amounts and with the following limits:

[fol: 3571] Passenger liability insurance - not less than \$75,000 for each passenger, with a limit of not less than \$1,000,000. for any one accident.

Public liability insurance not less than \$50,000.00 for each person, with a limit of \$1,000,000.00 for any one accident.

~~Property damage insurance not less than \$100,000.00 for any one accident.~~

27. *Aircraft Insurance*: During the term of this agreement each of the parties hereto shall keep in full force and effect at its expense, insurance policies written by responsible insurance companies, insuring each of the parties as their interests may appear and covering each DST airplane owned by either party hereto in an amount not less than the value thereof as determined by paragraph 24 hereof (including engines, propellers, instruments, accessories, and all equipment attached to or contained in the airplane) against damage or destruction caused by or arising out of crash, fire, wind storm, land damage or other casualty which occurs while the airplane involved is in its possession.

Notwithstanding the foregoing, either party may self-insure against said damage and destruction so long as the other party is satisfied that such self-insurance procedure adequately protects it against such loss. Upon notification by either party that the self-insurance procedure adopted by the other party is not satisfactory, the party so notified will immediately obtain and maintain at its expense the aircraft insurance above provided for.

28. *Indemnities*: Each party hereto agrees to indemnify, protect and save harmless the other against any and all loss or damage the other may sustain by reason of damage to property, or injuries to or deaths of persons caused by the operation of or possession of airplanes under this agreement while in the possession of such indemnifying party, unless negligence of the other party, jointly or severally, proximately caused such damage, injuries or deaths. Each party shall be responsible for the loss of or damage to any removable airplane equipment installed in any airplane in its possession.

[fol. 3572] 29. *Baggage*: In the event of loss of or damage to baggage or personal effects of a passenger on a

connecting schedule trip, the party whose act or omission caused the loss or damage shall be solely responsible to the passenger, and in case of inability to prove where or under what circumstances the loss or damage occurred, any liability therefor shall be shared equally by the parties hereto.

30. *Definitions*: The term "month", as used in this agreement, shall mean a complete calendar month, except when applied to the first months hereunder which shall be the period from the effective date hereof to and including the last day of such month.

31. *Compliance with Regulations*: All airplanes operated hereunder shall at all times be so equipped, operated, and maintained as to comply in all respects with the rules and regulations of the Civil Aeronautics Authority. Each pilot or co pilot operating any airplane hereunder shall be a pilot or co pilot qualified to act in such capacity in accordance with the rules and regulations of the Civil Aeronautics Authority or any other governmental authority having jurisdiction thereof.

32. *Mainliner*: United shall permit Western to display on its DST airplanes the word "Mainliner", which United was the first to adopt and use, in the same manner as United displays this word on its own airplanes.

33. *Taxes*: In the event either United or Western shall be obligated to pay any sales or use taxes on commodities or materials purchased to operate, maintain or repair airplanes or equipment or accessories relating thereto, such taxes shall be considered a part of the cost of the commodity, material or repair work involved and shall be charged and prorated as above set forth.

34. *Access to Books and Records*: Each party hereto, or a representative designated by it, shall have the right of access, during the term of this agreement and within a reasonable time after the expiration thereof, to the books and records of the other party for the purpose of verifying flying hours, costs and expenditures pertinent to this agreement.

35. *Effective Date*: Leasing of sleeper airplanes under this agreement shall commence at such time as is mutually

agreed upon by the parties hereto after the approval hereof by the Civil Aeronautics Authority.

36. *Orders:* This agreement shall be subject to any applicable, valid, and final rules, regulations, or orders that may now exist or that may be adopted hereafter by the Civil Aeronautics Authority or by any other lawfully constituted and empowered governmental authority having jurisdiction.

37. *Term:* This agreement shall continue in force until terminated by either party thereto upon thirty days' advance written notice thereof to the other.

Upon termination of this agreement, airplanes, engines, propellers, instruments, accessories and equipment owned by each party, but in the possession of the other party at the date of termination, shall be returned to the owner at Salt Lake City.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be lawfully executed this 17th day of March, 1939.

WESTERN AIR EXPRESS CORPORATION

By [sgd.] ALVIN P. ADAMS
President

ATTEST:

[sgd.] L. H. DWERLKOTTE
Secretary

UNITED AIR LINES TRANSPORT
CORPORATION

By [sgd.] W. A. PATTERSON
President

ATTEST:

[sgd.] P. W. WILLCOX
Secretary

[fol. 3574]

EXHIBIT "A"

Airplane Type & Department of Commerce Number	Values as of January 1, 1939 excluding engines & Propellers
Douglas DST—NC-18101	\$71,900.00
Douglas DST—NC-18102	71,900.00
Douglas DST—NC-18103	71,900.00
Douglas DST—NC-18104	71,900.00
Douglas DST—NC-18105	71,900.00
Douglas DST—NC-18106	71,900.00
Douglas DST—NC-18107	71,900.00
Douglas DST—NC-18109	71,900.00
Douglas DST—NC-18110	71,900.00
Douglas DST—NC-18145	88,100.00
Douglas DST—NC-18146	90,100.00

[fol. 3575]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 404

THIS AGREEMENT between Pan American Airways, Inc., a corporation organized and existing under the laws of the State of New York (hereinafter called "PAA") and Pan American-Grace Airways, Inc., a corporation organized and existing under the laws of the State of Delaware (hereinafter called "Panagra")

RECITALS.

WHEREAS, PAA was organized in 1927 for the purpose of operating international air transport services; and

WHEREAS, pursuant to Contract No. F.A.M. 5, dated July 13, 1928, and to the provisions of its certificate of public convenience and necessity issued July 22, 1940, as

amended, PAA has operated and now operates air transport services between the Continental United States and the Canal Zone by various routes; and

WHEREAS, Panagra was formed pursuant to an agreement made in the fall of 1928 between Pan American Airways Corporation, a corporation organized and existing under the laws of State of Delaware (then known as Aviation Corporation of the Americas), which then and continuously thereafter owned all of the capital stock of PAA, and W. R. Grace & Company, a corporation organized and existing under the laws of the State of Connecticut, whereby the two companies agreed to associate themselves in the organization of a company half of the capital stock of which was to be owned by each of them, for the purpose of conducting air transport service south of the Canal Zone on the West Coast of South America; and

WHEREAS, pursuant to contract No. F.A.M. 9, dated March 4, 1929, and to the provisions of its certificate of public convenience and necessity issued July 22, 1940, as amended, Panagra has operated international air transport services south of the Canal Zone, such services now including points in western Colombia, Ecuador, Peru, Chile, Bolivia and Argentina; and

WHEREAS, the bulk of the traffic carried by Panagra from and to the Canal Zone originates in or is destined to the continental United States; and

WHEREAS, PAA now owns three Boeing S-307 four-engined land aircraft which are utilized, in part, in maintaining service between the Canal Zone and the continental United States, connecting with the services of Panagra and now has on order, among other types, 22 Lockheed L-49 four-engined land aircraft (such S-307 and L-49 aircraft being hereinafter referred to together with any other four-engined land aircraft acquired by PAA and assigned to the PAA routes described in paragraph 4 hereof as the "PAA planes") and Panagra now has on order three Douglas DC-4 four-engined land aircraft expected to be delivered in 1943 (hereinafter referred to together with any

other four engined land aircraft acquired by Panagra as the "Panagra planes"); and

[fol. 357c] WHEREAS the parties desire to enter into arrangements permitting the exchange of four engined land aircraft on certain of their operations as in this agreement set forth;

NOW, THEREFORE, in consideration of the premises and of the covenants herein contained, it is agreed as follows:

1. *Leasing of Planes:* Panagra shall have the right to tender Panagra planes, together with the engines and propellers therefor, to PAA at the Canal Zone for lease to and operation by PAA on schedules connecting with Panagra on PAA's routes described in paragraph 4 hereof, and PAA shall have the right to tender PAA planes, together with engines and propellers therefor, to Panagra at the Canal Zone for lease to and operation by Panagra on schedules connecting with PAA on Panagra's routes described in paragraph 4 hereof, but neither PAA in the case of Panagra planes nor Panagra in the case of PAA planes, shall be obliged to accept such tender or to lease or operate such planes. Such tender may relate to one or more planes and to one or more scheduled trips and shall be in writing mailed or delivered by the tendering party to the principal office of the other in New York, N. Y., not less than _____ days before the scheduled day of arrival in the Canal Zone of the plane so tendered or, if relating to more than one plane or trip, then not less than _____ days before the scheduled arrival day in the Canal Zone of the first such plane or trip; the acceptance or rejection of such tender shall be in writing mailed or delivered to the principal office of the tendering party in New York, N. Y., not less than _____ days before such scheduled day of arrival. Whenever any such tender shall be accepted the resulting lease and the operations thereunder shall be governed by the terms and provisions of this agreement hereinafter set forth. Any tender accepted may be cancelled as to any scheduled trip or trips by either party hereto by written notice mailed or delivered to the principal office of the other party in New York, N. Y., not less than _____ days before

the scheduled trip. The point of exchange in the Canal Zone shall be Albrook field, Balboa, or such other point as may be determined upon by the parties and approved by the governmental authorities having jurisdiction in the premises.

2. *No Off-Line Operation*: PAA shall conduct no operation with Panagra planes leased hereunder except over its own route or routes, and Panagra shall conduct no operation with PAA planes leased hereunder except over its own route or routes. Since PAA now holds no certificate of public convenience and necessity for operations south of the Canal Zone to the west coast of South America it will not in any manner hold itself out as conducting operations from the Canal Zone to the west coast of South America; and since Panagra holds no certificate of public convenience and necessity for operations north of the Canal Zone it will not hold itself out as conducting any operations north of the Canal Zone. Except in case of emergency, no operation with leased planes shall be conducted on any routes other than those specified in paragraph 4 of this agreement.

[fol. 3577] 3. *Crews*: The crew of each plane used in conducting scheduled service under this agreement shall be employed by and serve only on the routes of its employer and shall be subject to the sole direction and control of its employer.

4. *Place of Operation of Leased Planes*:

(a) The place of operation by PAA of the Panagra planes shall be:

(i) PAA's route or routes between the Canal Zone and Miami, Florida, either non-stop or with such intermediate stops not more than _____ in number and not involving a deviation of more than _____ miles from the direct airline distance as PAA may determine; or

(ii) In the event that, pursuant to its application to the Civil Aeronautics Board, Docket No. 373, PAA shall receive authority to operate between the Canal Zone and New Orleans, Louisiana either non-stop or via Guatemala and Merida or via Havana, then such route or routes so authorized.

(b) The place of operation of the PAA planes shall be the route of Panagra between the Canal Zone and .

5. *Connecting Schedules*: If the parties agree regularly to accept each other's tenders of planes so as to permit an interchange of equipment on connecting schedules, at the Canal Zone, it is the intent of this agreement that the number of revenue miles to be flown by the PAA planes on the routes of Panagra in each month shall approximately equal the number of revenues miles flown by the Panagra planes on the routes of PAA during each month; and the number of connecting schedules to be operated by leased planes and the portion of the route of Panagra over which the PAA planes shall operate shall be fixed to accomplish this result as nearly as sound and efficient operation, the rendering of convenient service to the traveling public, and the expedition of mail and express permit.

6. *Delivery of Leased Planes*: Delivery of leased planes under this agreement shall be made by one party to the other at the Canal Zone unless some other point is mutually agreed upon. Each party upon accepting delivery of a leased plane from the other shall ~~accept~~ and deliver to the other a receipt therefor in the following form:

[fol. 3578] "Received from

(The delivering line)

Under the Contract, dated between
Pan American Airways, Inc. and Pan American Grace
Airways, Inc., one 4-engine
airplane, United States License, No. complete
and in good operating condition at
this day of, 194 at M.

(The receiving line)

By

Lessees receiving planes hereunder shall cause such planes to complete their round trips and return to the Canal Zone as soon as practicable.

3652

[fol. 3587]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 407

(See opposite) 1-67

7. *Authority to Sign Receipts and Accept Deliveries:*

Prior to the effective date of this agreement each party shall give to the other a letter signed by its President or a Vice-President setting forth the names and titles of the persons in its employ who are authorized to sign receipts for planes leased under this agreement and also setting forth the names and titles of persons authorized to accept delivery of such planes and of receipts executed by the other party. Such letters may be amended from time to time by the President or a Vice-President of the party making the amendment, and such amendments shall become effective upon delivery thereof to the President or a Vice-President of the other party.

8. *Designation of Owner and Operator of Plane:* While operating a leased plane hereunder each party shall display on the forward cabin wall of such plane, visible to passengers, a sign of the style and size mutually agreed upon, disclosing the name of the owner and the name of the operator of the plane.

9. *Tickets:* Tickets and other documents sold by either party hereto for connecting schedule transportation shall distinctly show that the trip north of the Canal Zone is being made via PAA and the trip south of the Canal Zone is being made via Panagra, all in accordance with the standard forms of interline tickets now in use by the parties hereto. All revenues from the transportation of passengers, express and mail on schedules operated north of the Canal Zone by PAA with leased Panagra planes shall be for the account of PAA to the same extent as on schedules operated by PAA planes. All revenues from the transportation of passengers, express and mail on schedules operated by Panagra south of the Canal Zone with leased PAA planes shall be for the account of Panagra to the same extent as on schedules operated by Panagra planes.

[fol. 3579] 10. *No Control over Other Party:* The scheduled times of arrival and departure of connecting schedules at the Canal Zone shall be from time to time determined by the parties hereto in the public interest to provide convenient and advantageous hours for the departure and

arrival of passengers, mail and express and as may be required from time to time by the Postmaster General of the United States pursuant to the provisions of Section 405(e) of the Civil Aeronautics Act of 1938 or amendment thereof. Each party shall have the exclusive right, subject to the orders of the Civil Aeronautics Board or other governmental authority having jurisdiction thereof, and to the provisions of paragraph 4 of this agreement, to fix the scheduled stops to be made on its route or routes. Nothing contained in this agreement shall be construed (a) to grant to either party any right whatever to determine whether any trip of the other party shall be operated or cancelled either in whole or in part, or (b) to exercise any control over any operation or business or affairs of or interest in the other party.

11. *Rental for Planes:* The respective lessees shall pay as rental for the planes leased hereunder sums determined as follows:

(a) There shall be determined the total cost to PAA of the planes owned by it of the type or types leased to Panagra, and the total cost to Panagra of the planes owned by it of the type or types leased to PAA. Such cost shall be the cost of the aircraft fully equipped, including instruments, aircraft communication equipment and miscellaneous flying equipment, but excluding engines and propellers, delivered and ready for use on the routes of the lessor including engineering and development expense and the cost of ferry flights.

(b) Panagra will pay to PAA as monthly rental for the PAA planes, a sum determined by dividing the cost of the PAA planes, determined as provided in subparagraph (a), by, and multiplying the quotient by, a fraction of which the denominator is the total hours flown by such PAA planes during such month and the numerator is the hours flown by the PAA planes during such month on the routes of Panagra.

(c) PAA will pay to Panagra as monthly rental for the Panagra planes, a sum determined by dividing the cost of the Panagra planes, determined as provided in subparagraph (a) by and multiplying the quotient by a fraction of which the denominator is the total hours flown by such Panagra planes during such month and the numerator is the hours flown by the Panagra planes during such month on the routes of PAA.

(d) On or before the 25th day of each month, each party shall certify to the other the information required to make the computations provided for in subparagraphs (a), (b) and (c) for the preceding month, [fol. 3580] and settlements for the rental charge due for each month shall be made on or before the last day of the following month.

12. *Rental for Engines*: The lessee of engines leased hereunder shall pay to the lessor thereof as rental for such leased engines, an amount determined by dividing the cost of each engine so leased by 5000 and multiplying the quotient by the number of hours flown by such engine on the routes of the lessee.

On or before the twenty-fifth day of each month, each lessee shall certify to the lessor the total number of hours during the preceding month the lessee operated engines owned by the lessor.

On or before the last day of each month, the parties hereto shall settle and pay to each other their engine rental accounts for the preceding month as hereinabove determined.

13. *Rental for Propellers*: Each lessee shall pay to the lessor as rental for propellers at a rate of \$ for each hour of operation of each of such propellers by the lessee thereof.

On or before the twenty-fifth day of each month, each lessee shall certify to the lessor, the total number of hours during the preceding month the lessee operated propellers owned by the lessor.

On or before the last day of each month, the parties hereto shall settle and pay to each other, their propeller rental accounts for the preceding month as hereinabove determined.

14. *Routine Overhauls of Planes and Equipment*: Each party shall overhaul or cause to be overhauled its planes, including propellers, instruments, accessories and equipment, to be leased hereunder, in accordance with its standard overhaul procedure. In no event shall the character or extent of such overhaul procedure be less than the minimum standards required by the Civil Aeronautics Administration.

Each lessee of planes hereunder shall pay to the lessor thereof a reasonable hourly charge for such overhaul.

On or before the last day of each month, the parties hereto shall settle and pay to each other their plane overhaul accounts for the preceding month as hereinabove determined.

15. *Overhauls of Engines*: Each party shall overhaul or cause to be overhauled its engines and engine accessories, including carburetors, spark plugs, magnetos, etc., to be leased hereunder, in accordance with its standard overhaul procedure. In no event shall the character or extent of such overhaul procedure be less than the minimum standards required by the Civil Aeronautics Administration.

[fol. 3581] Each lessee of engines hereunder shall pay to the lessor thereof a reasonable hourly charge for such engine overhaul.

On or before the last day of each month, the parties hereto shall settle and pay to each other their engine overhaul accounts for the preceding month as hereinabove determined.

16. *Replacement of Parts*: The entire cost of necessary replacements of major parts of planes, such as wings, control surfaces, propellers, instruments, plane accessories, engine accessories, landing gear and tires (so far as such replacements may be due to wear and tear arising out of the routine operation of the planes) shall be borne by the

owner of the plane on which such replacements are made. In the event any such replacement shall be made to a leased plane by the lessee thereof, the owner shall pay the lessee the reasonable cost thereof which shall be deemed to be the cost to the lessee of the replacement part, and the cost to the lessee for the direct labor involved in making such replacement, plus a charge for overhead not to exceed per cent. of such direct labor cost.

On or before the last day of each month the parties hereto shall settle and pay to each other their parts replacements accounts for the preceding month as hereinabove determined.

17. Inspection and Maintenance Service: Each of the parties shall give to the leased planes, engines and propellers of the other party plane, engine and propeller inspection and maintenance service of the same extent and general character as is performed by such party with respect to the planes, propellers, instruments, accessories and equipment owned by it; provided, however, that inspection and maintenance at the Canal Zone shall continue to be performed by PAA under existing arrangements whereby Panagra reimburses PAA for Panagra's ton-landing proration of expenses, and arrivals of leased planes at and departure of leased planes from the Canal Zone on the routes of the lessees shall be considered for purposes of such a proration as arrivals and departures of planes owned by the lessees. Such plane, engine and propeller inspection and maintenance service shall be not less in character or extent than the minimum standards required by the Civil Aeronautics Administration. No charge shall be made by either party against the other for inspection or maintenance service except in respect of the services rendered by PAA at the Canal Zone as aforesaid.

18. Ferry Trips: On all ferry trips required to provide planes where needed, the hours flown thereon shall be included in the monthly total of the company operating such ferry trips, and shall be taken into consideration in the same manner as pay trips in determining rentals and charges as hereinabove provided. Flight tests and other

non-revenue flights shall likewise be included, but time spent in loading and unloading, warm up, and engine tests shall not be included.

[fol. 3582] 19. *Gasoline and Oil*: Immediately prior to delivery of each leased plane hereunder, the delivering party, at its own cost, shall fill the gasoline tanks to the extent of _____ gallons and the oil tanks to the extent of _____ gallons. Upon the termination of this agreement, each plane in the possession of a party hereto as lessee shall be returned to the other party, at the Canal Zone with _____ gallons of gasoline in the gasoline tanks and _____ gallons of oil in the oil tanks.

20. *Oil Costs*: The lessee of engines leased hereunder shall pay to the lessor thereof the cost of oil placed in such engines at _____ hour intervals after drainage, at the rate of \$_____ p. hour of operation of each of such engines by the lessee thereof.

The lessor of engines hereunder shall reimburse the lessee the lessee's cost of oil placed in the lessor's engines by the lessee, after drainage.

On or before the last day of each month the parties hereto shall settle and pay to each other their oil accounts for the preceding month as hereinabove determined.

21. *Damage to Planes*: Each party hereto shall have the right to inspect each plane before accepting delivery from the other party, and the acceptance of such plane shall constitute an admission by the receiving party that the plane, including engines, propellers, accessories and equipment, is in good operating condition. Each party shall be responsible for all damage to planes in its possession caused by, or arising out of crash, fire, wind-storm, land damage, or other casualty, and if such plane belongs to the other party, the cost of repairing the same shall be paid, or caused to be paid or borne by the party having possession of the plane when the damage occurred. If such damage constitutes the destruction of a leased plane, engine, or propeller, the party having possession thereof at the time

of destruction shall pay or cause to be paid to the owner an amount equaling:

(a) The cost of the plane and equipment, excluding engines and propellers, determined as set forth in subparagraph (a) of paragraph 11 less a deduction at pro rata of _____ per cent. per month from the date of acquisition to the date of destruction;

(b) The original cost of each engine less a deduction of one five thousandth of such cost for each hour of operation thereof;

(c) The original cost of each propeller less a deduction of \$_____ for each hour of operation thereof;

and the party paying or causing to be paid such amount shall thereupon become the owner of such plane and equipment, engine or propeller, and all salvage thereof.

[Col. 3583] 22. *Liability and Property Damage Insurance*. During the term of this agreement, each of the parties hereto shall keep in full force and effect at its expense, insurance policies, written by responsible insurance companies, insuring and covering each of the parties as their interests may appear against liability for loss, injury, damage or claims arising out of or in connection with injuries to or deaths of passengers, injuries to or deaths of third persons, and damage to or destruction of property caused by or arising out of the operation of or possession of any plane under this agreement, and such insurance shall be so maintained by each party in the following amounts and with the following limits:

Passenger liability insurance not less than _____ for each passenger, with a limit of not less than _____ for any one accident.

Public liability insurance not less than _____ for each person, with a limit of _____ for any one accident.

Property damage insurance not less than _____ for any one accident.

23. *Indemnities*: The lessee shall in each case indemnify, protect and save harmless the lessor against any and all loss or damage which the lessor may sustain by reason of damage to property and injuries to or deaths of persons caused by the operation of, or the possession of, planes under this agreement while in the possession of the lessee, unless the negligence of the lessor, jointly or severally, proximately caused such damage, injuries or death. Each party shall be responsible for the loss of or damage to any removable plane equipment installed in any plane in its possession.

24. *Baggage*: In the event of loss of or damage to baggage or personal effects of a passenger on a connecting schedule trip, the party whose act or omission caused the loss or damage shall be solely responsible to the passenger, and in case of inability to prove where or under what circumstances the loss or damage occurred, any liability therefor shall be shared equally by the parties hereto.

25. *Definition*: The term "month," as used in this agreement, shall mean a complete calendar month, except when applied to the first month hereunder which shall be the period from the effective date hereof to and including the last day of such month.

26. *Compliance with Regulations*: All planes operated hereunder shall at all times be so equipped, operated, and maintained as to comply in all respects with the rules and regulations of the Civil Aeronautics Administration or any other governmental authority having jurisdiction thereof. Each pilot or copilot operating any plane hereunder shall be a pilot or copilot qualified to act in such capacity in accordance with the rules and regulations of the Civil Aeronautics Administration or any other governmental authority having jurisdiction thereof.

27. *Taxes*: In the event that either PAN or Panagra shall be obligated to pay any sales or use taxes on commodities or materials purchased to operate, maintain or repair leased planes or equipment or necessities relating thereto, such taxes shall be considered a part of the cost

of the commodity, material or repair work involved and shall be charged and prorated as above set forth.

28. *Access to Books and Records:* Each party hereto, or a representative designated by it, shall have the right of access, during the term of this agreement and within a reasonable time after the ~~expiry~~ ~~or thereof~~, to the books and records of the other party for the purpose of verifying flying hours, costs and expenditures pertinent to this agreement.

29. *Effective Date:* Leasing of planes hereunder, if any, shall commence and the effective date of this agreement shall be days from the execution hereof.

30. *Government Approval:* This agreement shall not become effective unless approved by the Civil Aeronautics Board pursuant to Section 412 of the Civil Aeronautics Act of 1938, as amended. If this agreement is not so approved, the negotiation and terms hereof and any application filed or acts done hereunder shall be without prejudice to the future position of the parties. Nothing in this agreement contained shall be deemed to constitute a modification or waiver of any prior agreements or understandings between the parties or between Pan American Airways Corporation and W. R. Grace & Company.

31. *Orders:* This agreement shall be subject to any applicable, valid, and final rules, regulations, or orders that may now exist or that may be adopted hereafter by the Civil Aeronautics Board or by any other lawfully constituted and empowered governmental authority having jurisdiction.

32. *Term:* This agreement shall continue in force until terminated by either party thereto upon years' advance written notice thereof mailed or delivered to the other at its principal office in New York City, N. Y.

Upon termination of this agreement, planes, engines, propellers, instruments, accessories and equipment owned by each party, but in the possession of the other party at the date of termination, shall be returned to the owner at the Canal Zone.

IN WITNESS WHEREOF, the parties hereto have
caused this agreement to be duly executed this day
of 194 .

PAN AMERICAN AIRWAYS, INC.,

By

Attest:

.....

PAN AMERICAN-GRACE AIRWAYS, INC.,

By

Attest:

.....

[fol. 3585]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 405

TESTIMONY OF MR. H. J. ROIG

CAB DOCKET NO. 779

September 30, 1943

p. 1146:

BY MR. REYNOLDS:

Q. Now, Mr. Roig, if you will turn, please, to PG 2 on page 5, which is minutes of Pan American-Grace Airways meetings. The pages are not numbered, but it is the last page for the minutes of the meeting of March 18, 1931.

(Discussion had off the record.)

Q. Referring to the statement which you made, which begins the long paragraph on that page, if you want to read it while we wait—

The Witness: I would like to. Yes, I have read it.

Q. What is the proposed extension to which these remarks referred?

A. As I recall it, it was a Pan American extension from Rio or Santos to Buenos Aires on the East Coast.

pp. 1148-1149:

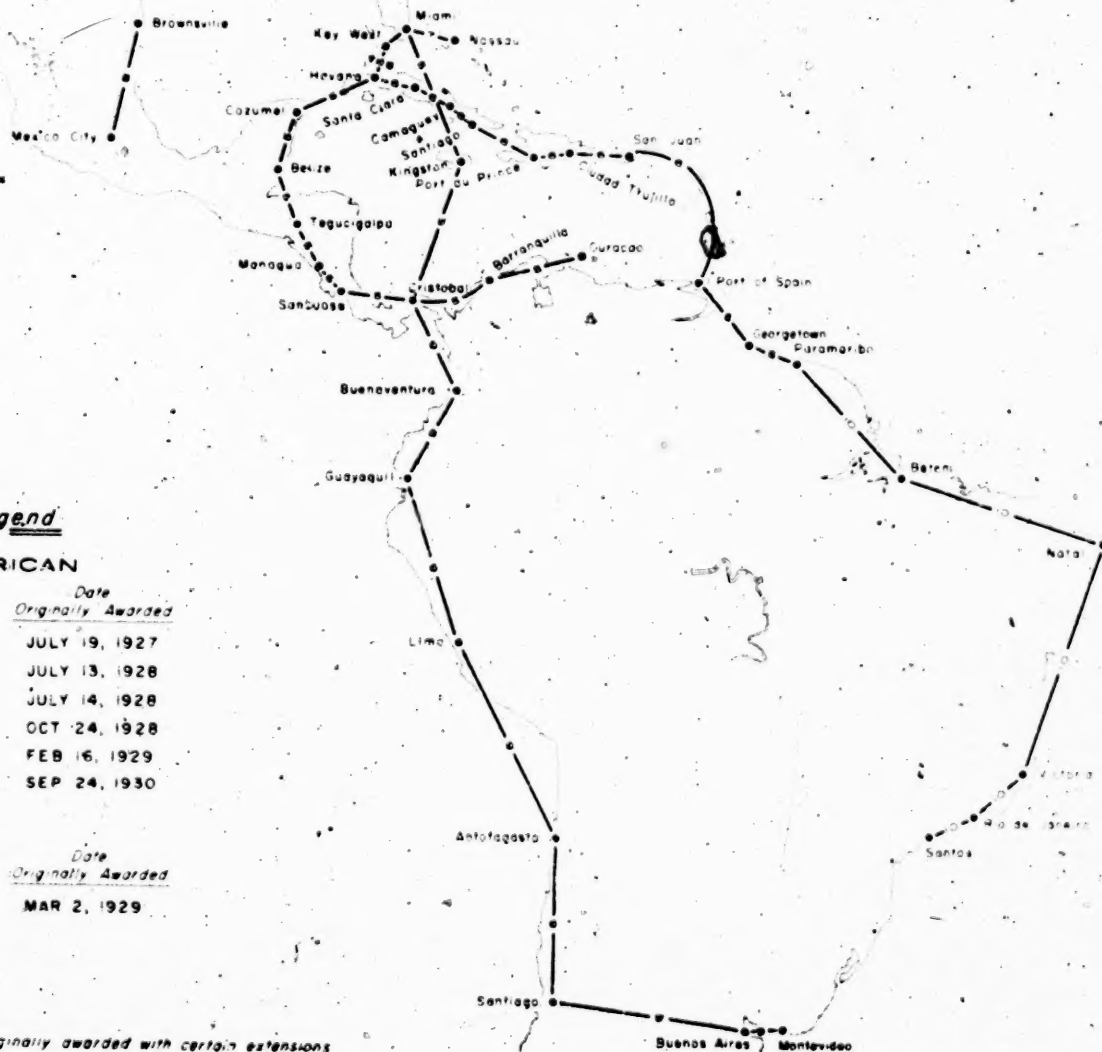
Q. What happened after this statement on the minutes was made?

A. I am not in a position to state beyond the fact that I was told that the suggestion was continued. Ultimately the East Coast route was extended to Buenos Aires without any reduction of the Panagra services.

Q. Or Panagra compensation for mail?

A. That is correct.

LATIN AMERICAN FOREIGN AIR MAIL CONTRACTS AWARDED 1927 - 1930



Legend

PAN AMERICAN

FAM	Date Originally Awarded
4	JULY 19, 1927
5	JULY 13, 1928
6	JULY 14, 1928
7	OCT 24, 1928
8	FEB 16, 1929
10	SEP 24, 1930

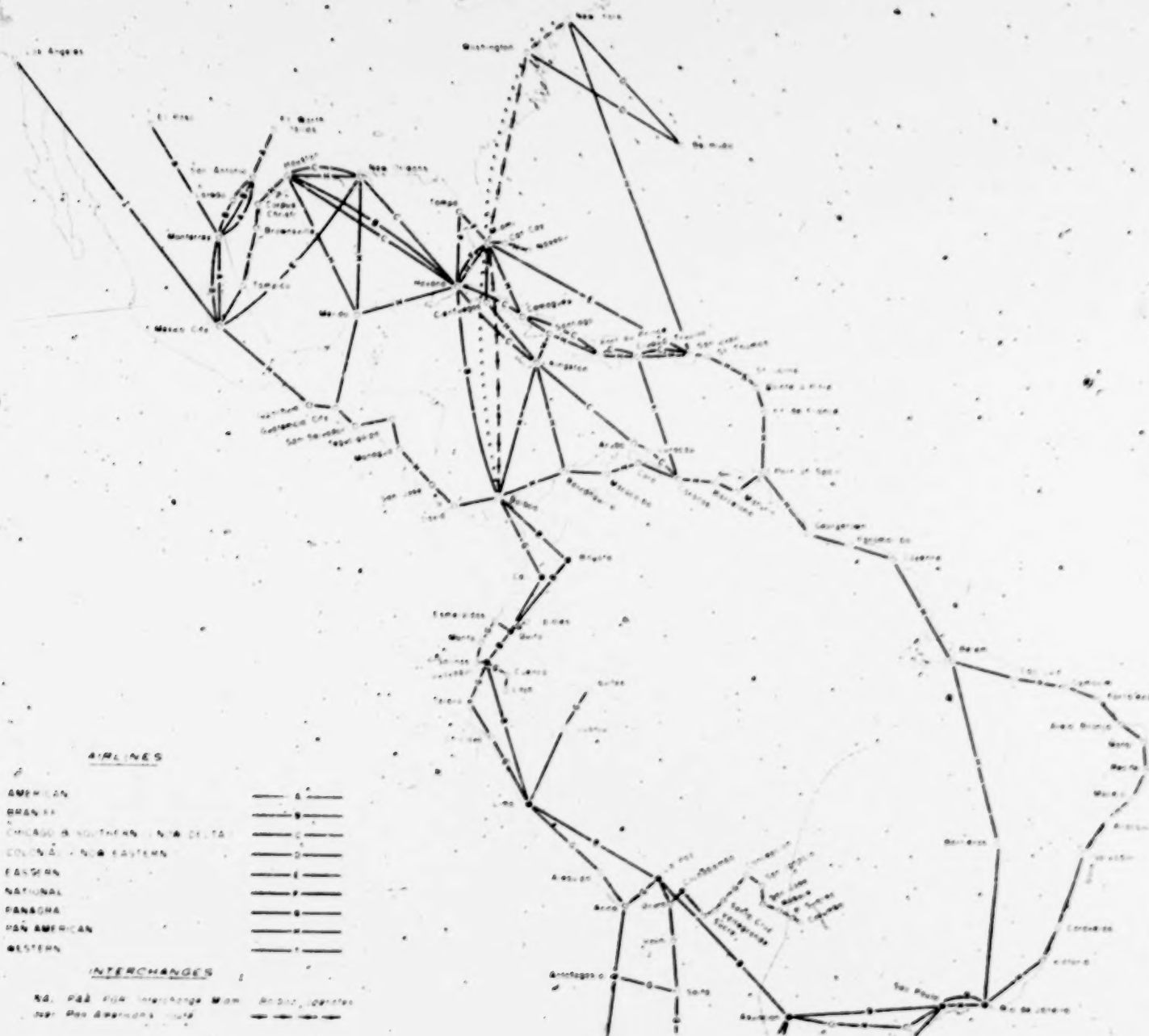
PANAGRA

FAM	Date Originally Awarded
9	MAR 2, 1929

NOTE Routes as originally awarded with certain extensions

[fol. 3586]
PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 406

ROUTES AWARDED IN DOCKET NO 525 ET AL
 ORDER NO 4793 DATED MAY 17, 1946
 AND THE NAL-PAA-PGR AND EAL-BNF INTERCHANGES APPROVED IN 1955



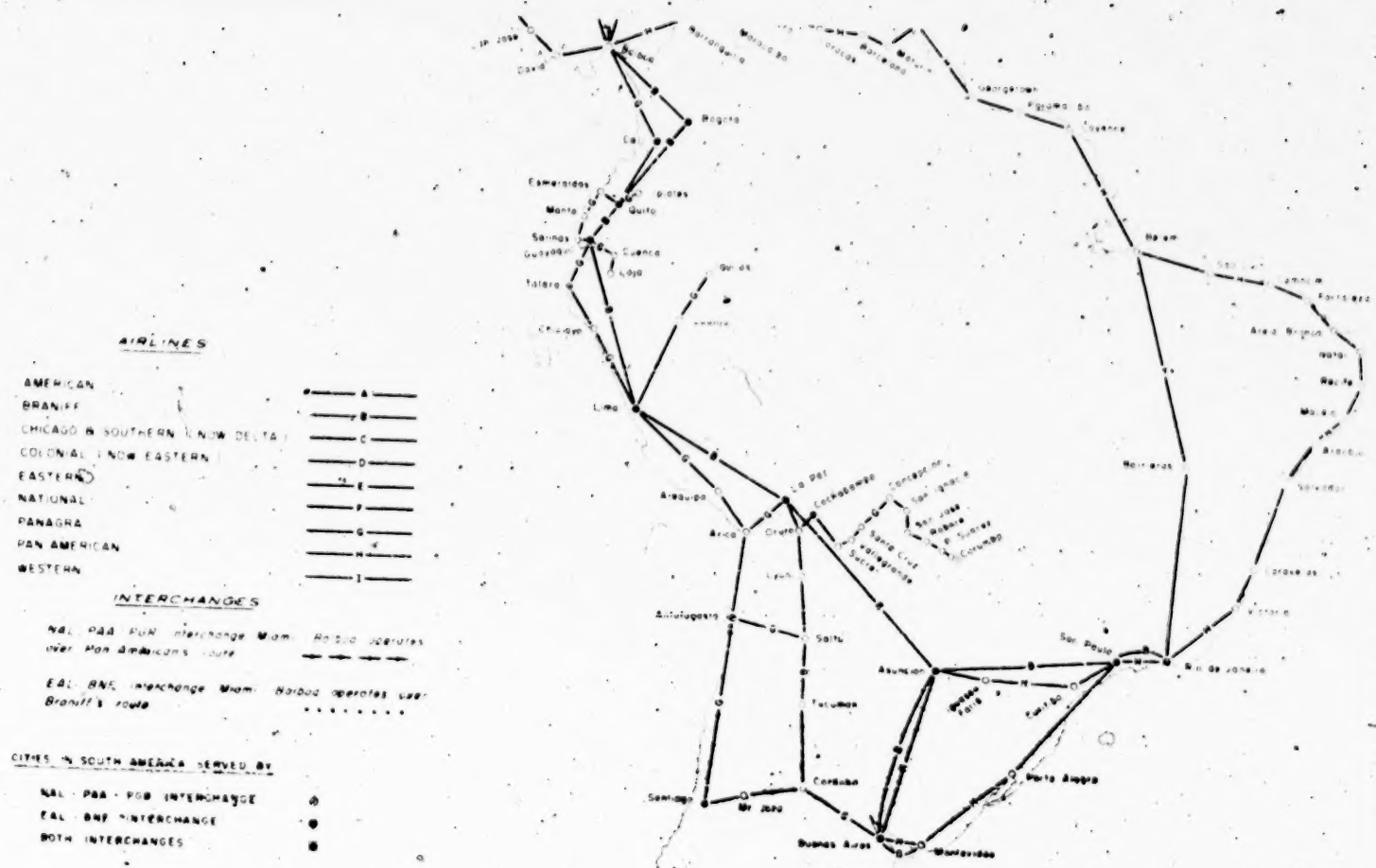
[fol. 3567]

PAN AMERICAN WORLD AIRWAYS, INC.

[fol. 3587]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 407

3653



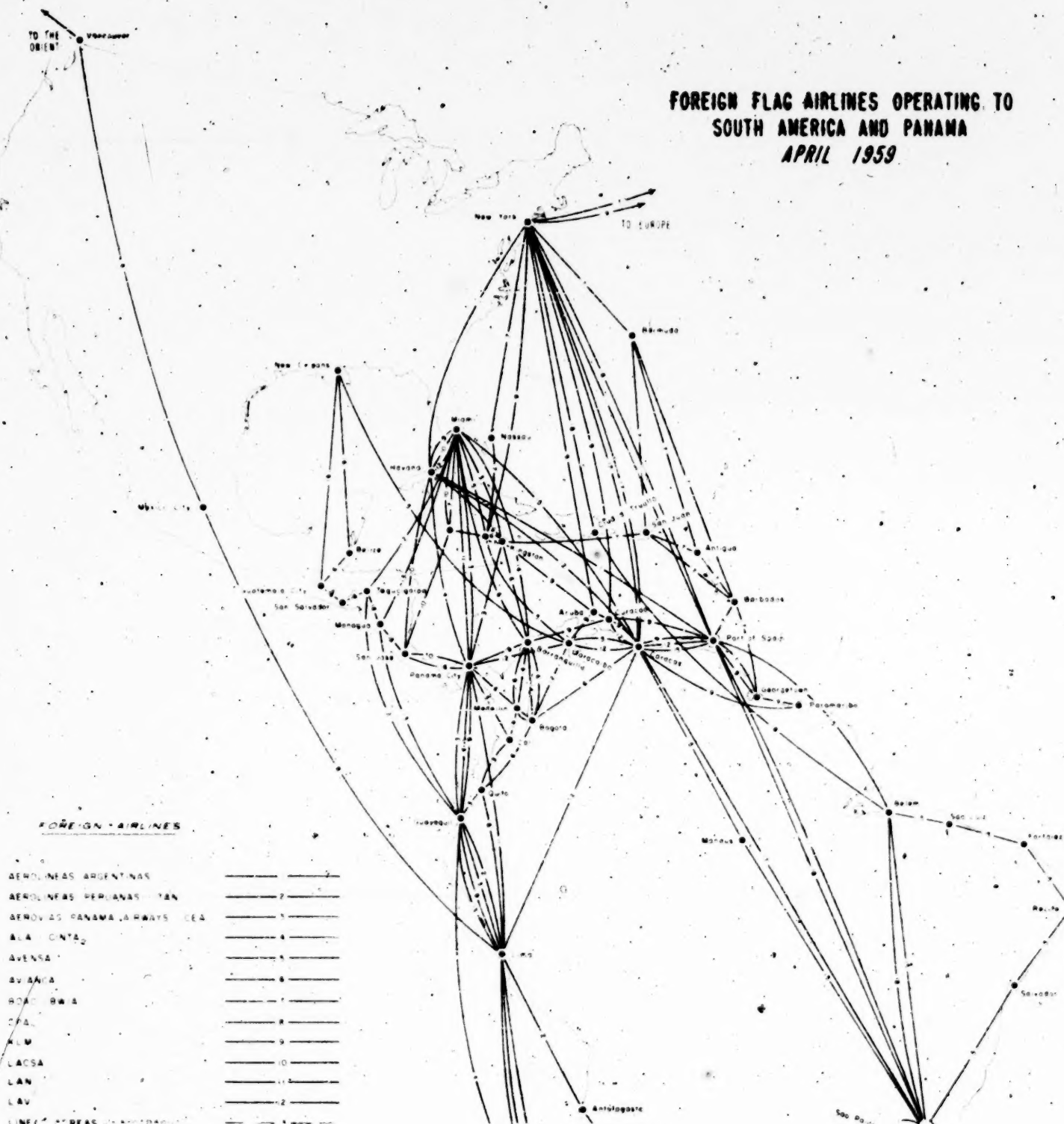
3654

[fol. 3588]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 408

(See opposite) 28

**FOREIGN FLAG AIRLINES OPERATING TO
SOUTH AMERICA AND PANAMA
APRIL 1959**

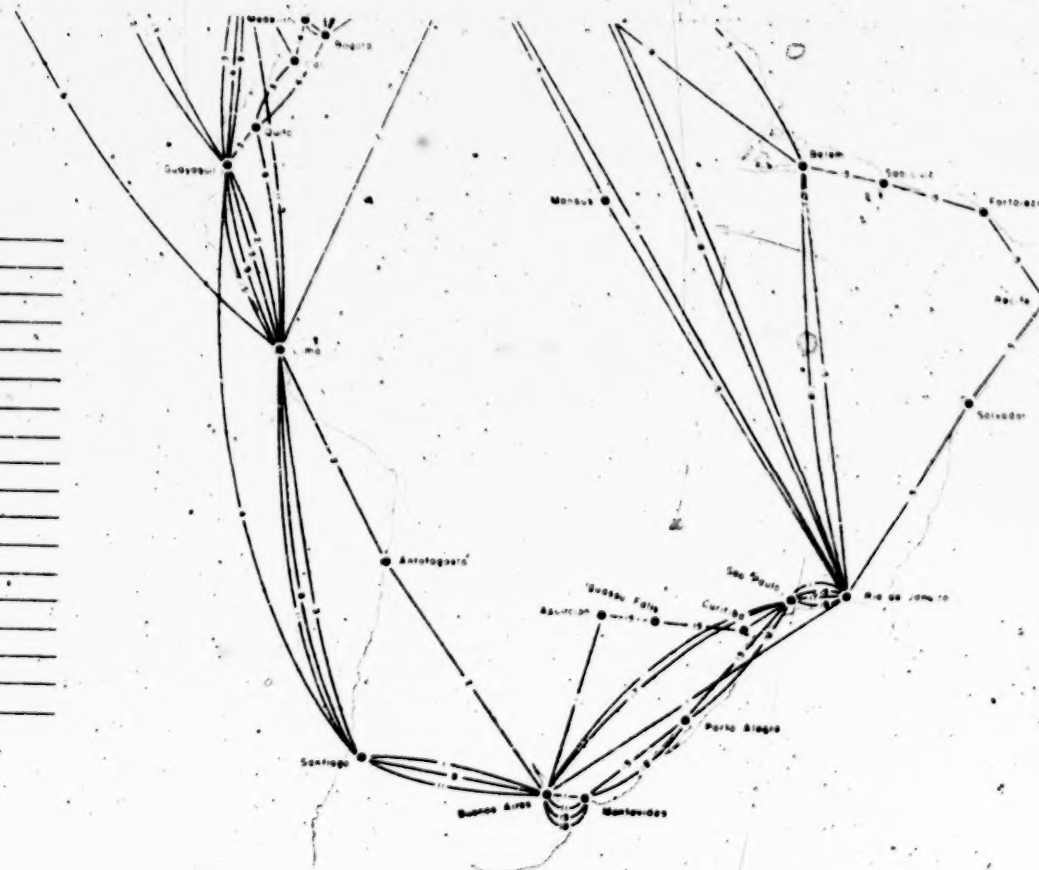


[fol. 3588]

PAN AMERICAN WORLD AIRWAYS

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AVIANCA
BOAC BWA
CPAL
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SAV
LINEAS AEREAS DE NICARAGUA
LLOYD AEREO COLOMBIANO
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TACA INTERNATIONAL
TRANSCONTINENTAL
VARIG

SOURCE Official Airline Guide




PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 408

3656

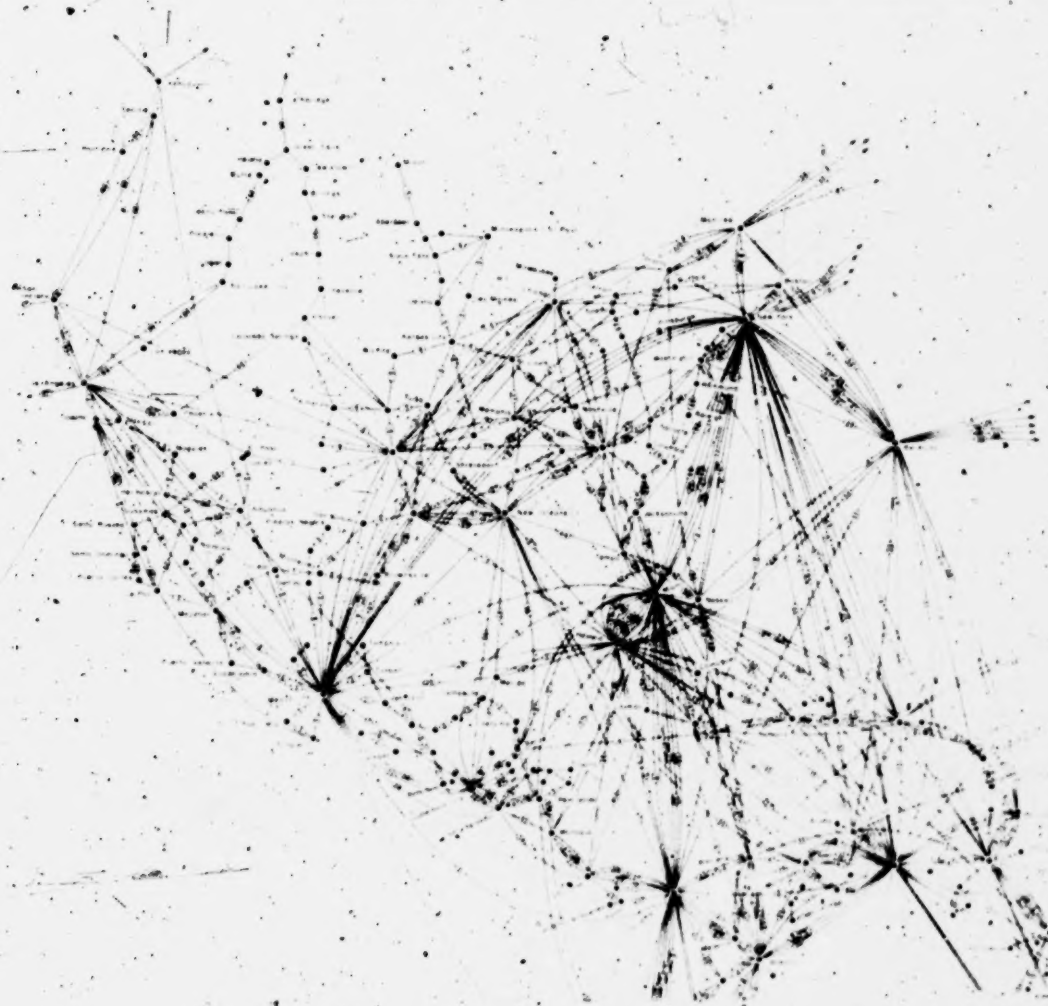
[fol. 3589]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 409

(See opposite) 

PRINCIPAL LATIN AMERICAN AIRLINE SERVICES *

APPENDIX B



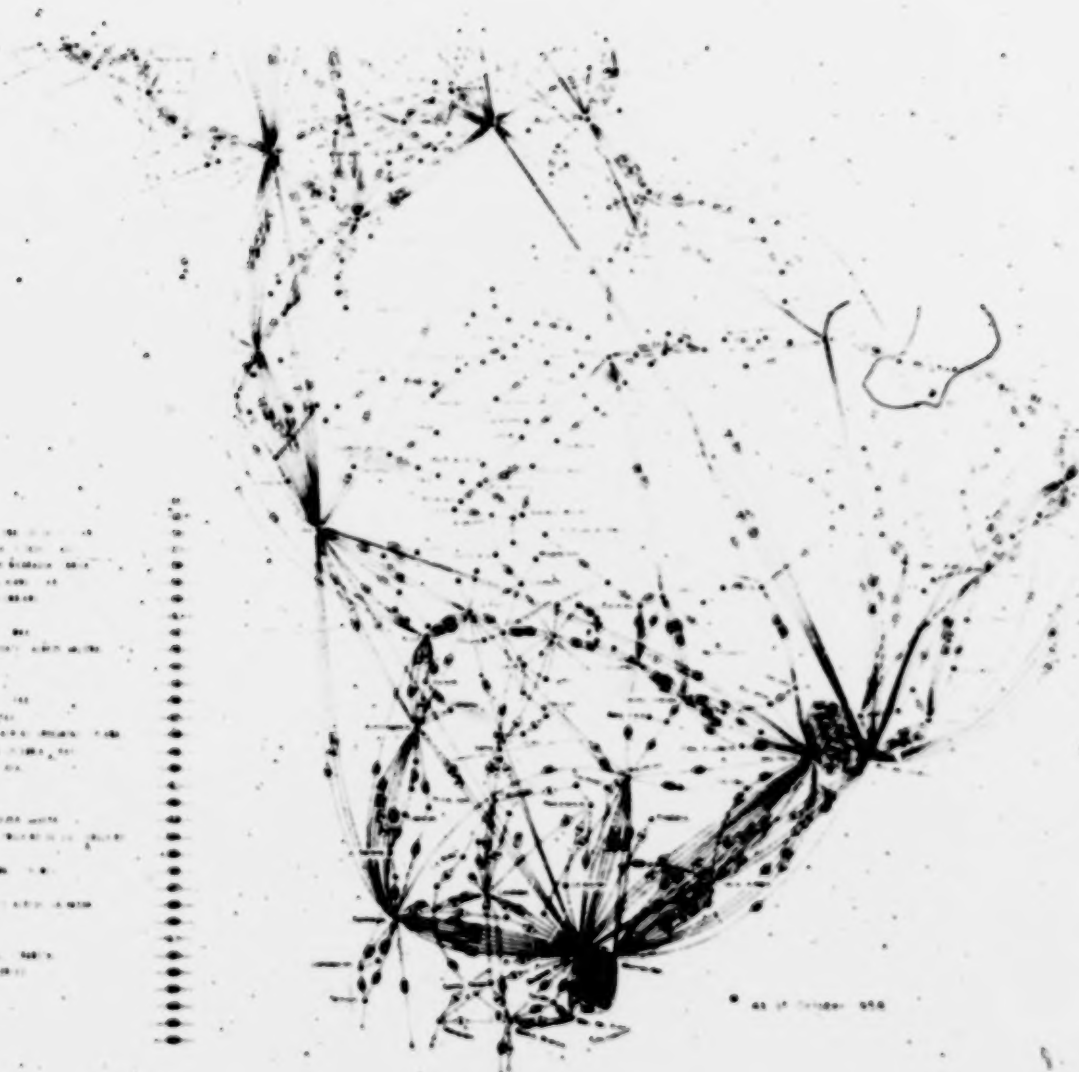
[fol. 3589]
PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 409

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[fol. 3590.]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 410

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK
Civil Action No. 90-259

UNITED STATES OF AMERICA,

Plaintiff,

v.

PAN AMERICAN WORLD AIRWAYS, INC., W. R. GRACE AND
COMPANY; and PAN AMERICAN-GRACE AIRWAYS, INC.,

Defendants.

I. TESTIMONY OF JUAN T. TRIPPE IN CAB
DOCKET 779 WHICH PAN AMERICAN INTENDS
TO OFFER IN EVIDENCE

pp. 1499-1506:

By Mr. Friendly:

Q. Now, will you go back to the early days and tell us what were the plans of Pan American for the development of its route in the year 1927?

A. Pan American's plans in 1927 were to create an American flag system of air transportation in Latin America in competition with the French and German lines which had already established themselves there.

Q. In connection with your testimony as to these early days, have you examined certain documents to refresh your recollection as to precise dates and the like?

A. Yes, I have examined the historical documents which are in one of the exhibits here, and also certain other documents which will be presented in the course of my testimony.

Q. Did Pan American's plans in 1927 include an airline down the West Coast?

A. They did from the onset.

Q. Will you tell us, please, who were the owners of Pan American Airways in 1927?

[fol. 3591] A. The ownership in 1927 was divided between a group composed of former pilots who had served in the first world war, including myself, and another group headed by R. F. Hoyt of Hayden Stone & Company, who represented several large stockholders and who was chairman of our Board.

Q. What were the first steps which you took toward carrying out the plans that you mentioned for an airline down the West Coast of South America?

A. We investigated the operating feasibility of a route down the West Coast and examined the statistics on passenger travel and mail travel to the countries to be served.

Then we set about to acquire the necessary operating rights.

Mr. Cabill: May I have the "we" defined, please?

The Witness: The Pan American Airways, Inc.

Q. What did Pan American do to secure these operating rights?

A. Pan American found that the situation in Colombia was extremely complicated, and I shall come back to this problem and cover it in detail.

We determined that the country where it was most practical to get ourselves established was Peru. We were very fortunate in that there was already operating in Peru a company controlled by Mr. Hoyt and his associates known as Huff Daland Dusters, Inc. This company had initiated the dusting of cotton by airplane in the southern United States and was engaged in dusting operations in Peru.

Q. Can you tell us who were the officers of Huff Daland at that time?

A. Mr. Edgar Gott then president of Keystone Aircraft Corporation was president of Huff Daland, and Mr. C. E. Woolman and Captain, now Colonel, Harold Harris were vice presidents.

[fol. 3592] Q. Mr. Woolman is the gentleman who is now vice president of Delta?

A. That is correct.

Q. Did Pan American determine to work through Huff Daland to acquire operating rights in Peru?

A. Yes. Mr. Hoyt took the position, with which I thoroughly agreed, that since Huff Daland was already on the ground in Peru and since Mr. Woolman and Colonel Harris were understood to enjoy the respect of the Peruvian Government, it would be much better to proceed through Huff Daland and then, after these operating rights had been secured, merge the Huff Daland organization and equipment into Pan American.

Q. Were the arrangements as to the acquisition of rights by Huff Daland embodied in writing?

A. Yes, they were.

Q. Did you meet Colonel Harris at about this time?

A. Yes, I did. Colonel Harris had pioneered the dusting of cotton both in Louisiana and in Peru, and both he and Mr. Woolman had acquired considerable experience in operating aircraft in that country. I had Colonel Harris meet Mr. Priester, our chief engineer, to discuss the technical problems involved.

From that time on we worked very closely with Colonel Harris in regard to the negotiations for the Peruvian operating rights, and with plans for our West Coast air transport operation generally.

Q. Where were these first conferences between Colonel Harris, yourself, and Mr. Priester?

A. They were in New York.

[fol. 3593] Q. When did they occur?

A. Toward the end of 1927.

Q. When did you see Colonel Harris again?

A. He returned to Louisiana and afterward I met him at Havana early in 1928 where we had further discussions.

Q. Meanwhile did Mr. Woolman institute negotiations

for the concession in Peru pursuant to the letter which is page 1 of Exhibit P-34?

A. Yes, he did.

Q. And were these negotiations successfully concluded?

A. Yes, under date of May 29, 1928, Huff Daland was awarded an operating concession and under date of June 27 an airmail contract.

Q. And are those the documents that appear on pages 2 to 19, inclusive, of Exhibit P-34?

A. Yes, those are.

Q. Now, at about the time when these operating rights were secured, was there a change in the arrangements between Pan American and Huff Daland, and, if so, tell us what that change was?

A. Yes. As a result of discussions between the officers of the two companies, during the spring of 1928, it was agreed that Huff Daland should continue in its dusting operations and that Pan American should take over the concession for the air transport operations. Accordingly a new arrangement was made between Mr. Gott and myself whereby Pan American would take over only the Peruvian operating concession and airmail contract.

Q. Was the arrangement between you and Mr. Gott embodied in a letter dated June 26, 1928, a copy of which appears on page 42 of Exhibit P-34?

A. It was.

[fol. 3594] Q. Up to this time had any arrangements been made for any participation by W. R. Grace & Company in the airline which Pan American was setting up down the West Coast?

A. No, not to my knowledge.

Q. Was Pan American taking other steps in May, June, and July of 1928 to carry out its program for air transport service in Latin America?

A. Yes. During June, 1928, we revised our corporate structure and raised some two and a half million dollars of new capital. On July 12, 1928, we were awarded two important foreign airmail contracts, one a contract known as foreign airmail route No. 5 from Florida to the Canal Zone with a provision for an extension along the north coast of South America, and the other known as Foreign Airmail Route No. 5, Foreign Airmail Contract No. 6, and

the other known as Foreign Airmail Contract No. 6, from Florida to Puerto Rico, with a provision for an extension to Trinidad.

Q. What steps did Pan American take to avail itself of the Peruvian concession?

A. We had considerable discussion as to setting up the corporation which was to take over the Peruvian concession and airmail contract. It was our thought at the time that it might—

pp. 1508-1519:

Q. Would you continue, Mr. Trippe?

A. It was our thought—and I would say again that I refer to the officials of Pan American Airways at the time—that it would be best to have the Peruvian corporation organized for this purpose.

Our idea was that this Peruvian corporation would initially operate the portion of the route in Peru under sub-contract from Pan American Airways along the same lines [fol. 3595] as subsequently was done in Mexico and Brazil, and that after the service had been established for a time, the American flag company, Pan American Airways, would take over, as was done later in Mexico and Brazil.

Our Board of Directors authorized this at a meeting on July 18, 1928.

Q. Does a copy of that resolution appear on page 43 of Exhibit P-34?

A. It does.

Q. What else was done with a view to taking advantage of the Peruvian concession?

A. Our vice president and counsel was asked to prepare a detailed plan for the organization of this company.

Mr. Cahill: Who is he, if I may ask.

Mr. Friendly: That was Mr. Thach.

The Witness: Mr. Thach at the time.

A. (Continuing) He did this under date of August 1, 1926.

Q. Does a copy of that plan appear on pages 44 and 45 of Exhibit P-34?

A. It does.

Q. What else was done by Pan American at this time with respect to operations in Peru?

A. Pan American also gave consideration to the personnel of the company. We felt it extremely desirable that the company should have the advantage of the services of Colonel Harris who was already personally familiar with air operations on the West Coast of South America. It was arranged that he was to become the vice president and operations manager of a wholly-owned Peruvian company with headquarters in Lima.

[fol. 3596] I was to serve as president of this Peruvian company and other officers of Pan American were to hold the other corporate offices except for an assistant secretary and an assistant treasurer to be located in Lima.

Q. Did Pan American do anything about procuring equipment at this time?

A. Yes. We ordered the fleet of S-38's including equipment for the initial operation of the sector between the Canal Zone and Guayaquil. Pan American used two of these planes to initiate this operation for account of Pan American-Grace in 1929.

Q. Had Pan American done anything to secure operating rights in other countries along the West Coast route?

A. In the summer of 1928 Mr. Woolman, for Pan American's account, and acting on its behalf, had instituted negotiations for operating rights in Ecuador. Pan American Airways had instituted negotiations in its own name to secure operating rights in Pan American, rights not only for operations in Central America and the North Coast of South America, but also down the West Coast of South America.

Q. What was being done about Colombia at this time?

A. We were negotiating with Dr. von Bauer, but at this time, namely the spring and early summer of 1928, we had not succeeded either in arranging for the purchase of control of his Colombian company, the Scudta, or in getting his consent to any other arrangement whereby we could operate through Colombia.

Q. Will you tell us, please, who Dr. von Bauer was?

A. Dr. von Bauer was an Austrian. He was the manager and part owner of the air transport company which had been established in Colombia early in 1920, known as Scadta, and which took over a previous effort by French interests in Colombia which had failed.

[fol:3597] The principal stockholders of Scadta were Dr. von Bauer and his brother, both Austrians.

Dr. von Bauer, along with Dr. Olaya Herrera, Colombian Minister to Washington, had represented Colombia at the Havana International Aviation Conference, and he was the principal spokesman for Colombian aviation there.

Dr. Olaya Herrera later became president of Colombia. He was a close personal friend of Dr. von Bauer.

Q. How did you meet Mr. von Bauer?

A. I met him through Mr. Hoit, our Board Chairman.

Dr. von Bauer or his brother, in some way, had been associated with Mr. Hoit's firm in the cotton business.

Q. Why did you go to Dr. von Bauer in connection with obtaining the right for Pan American to operate through Colombia?

A. Dr. von Bauer had been working for some years on plans to expand Sacada to the South through Ecuador and into Peru; to the north through the Canal Zone and Central America to the United States, and to the East as well.

Q. By east, you mean into Venezuela?

A. Into Venezuela and Curacao. He also had been working on a direct Caribbean service from Barranquilla via Kingston to points in Cuba and thence to the United States. In fact, he was attempting to expand his company in all directions and at the same time retard the expansion of the United States service south of Panama.

Dr. von Bauer had not succeeded by the summer of 1928 in getting rights to operate to the Canal Zone or into the United States.

Q. Had Pan American developed any other plan? By "other," I mean other than an arrangement with Dr. von Bauer, to acquire a position in Colombia and secure operating rights for its services along the north and west coast of that country.

[fol. 3598] A. Yes. There had been organized in 1927 a Colombian company known as Sacada for the purpose of operating in Colombia in competition with Scadta including both transportation and aerial mapping work in that country. A substantial interest in this company was owned by Mr. Sherman Fairchild and Mr. Graham Grosvenor who became directors of our company in the summer of 1928.

We worked out a program with Mr. Fairchild and Mr. Grosvenor whereby we could acquire 70 percent of this company, the balance to continue to be owned by Colombian business people.

Pan American expected, through Sacada to set up a competitive transport service in Colombia, both on the Magdalena River and on the so-called circular land plane route.

A. (Continuing) Pan American expected, through Sacada to set up a competitive transport service in Colombia, both on the Magdalena River and on the so-called circular land plane route connecting a number of the important cities in Colombia such as Bogota and Medellin with Barranquilla on the north coast and Cali on the west coast.

Q. Who was to work out these arrangements in Colombia?

A. Mr. H. Case Wilcox, now a colonel in the United States Army.

Q. Did you personally have discussions with Mr. Wilcox in the summer of 1928?

A. Yes, I did.

Q. Did Mr. Wilcox proceed immediately to Colombia at that time?

A. No, he did not.

Q. Can you tell us why?

[fol. 3599] A. He was unable to proceed at the time but he did go to Colombia for us about four months later.

Q. Now, let us see if we can summarize the situation as it existed at this time: Pan American had an operating concession in Peru?

A. That is correct.

Q. And it had instituted negotiations for the necessary rights in Panama and Ecuador?

A. That is correct.

Q. And it had these arrangements to which you have testified with regard to Colombia?

A. That is correct.

Q. And it had ordered equipment to enable it to begin operations over the northern part of the west coast route?

A. It had.

Q. And it had arranged for the services of Colonel Harris on the west coast of South America?

A. Yes, and it had the United States mail contract for the route from Miami to the Canal Zone.

Q. When did you first hear of a proposal—and by “you” I mean you personally—that W. R. Grace & Company might take an interest in the company that was to operate under the Peruvian concession?

A. I did not hear of it until around August, 1928.

Q. How did you hear of it?

A. Mr. Holt told the officers of Pan American that he had conversations with Mr. Ishhart, and I think Mr. Patchin of the Grace Company, whereby the Grace Company might acquire up to a 50 percent interest in our route from the Canal Zone down the west coast of South America.

Mr. Reynolds: Mr. Friendly, if you don't mind, when you summarized, you did not give a time. Is it your point in [fol. 3600] Mr. Trippe's testimony that all of these arrangements summarized had been completed before any connection with Grace arose?

The Witness: That is correct.

Mr. Friendly: I was referring to the end of July or the early part of August, 1928.

Q. Did you see Colonel Harris again at about this time?

A. Yes. Colonel Harris had come to New York for discussions with us as to the steps to be taken in setting up the operations in Peru. At about this time Colonel Harris informed me that at Mr. Holt's suggestion he had met with certain officers of the Grace Company.

Q. Did Colonel Harris give you this information in writing or orally?

A. In writing and also orally.

Q. Did Mr. Hoyt ask you in 1928 to prepare a memorandum of the plan and transmit it to the Grace Company?

A. He did.

Mr. Friendly: I would like to have marked for identification a document entitled "dated August 15, 1928, and headed draft memorandum, west coast operations."

Q. Is the document marked Exhibit P-148 the document which you prepared?

A. It is.

Q. Did you transmit this document to the Grace Company?

A. I did.

Q. To whom?

A. To Mr. Cogswell.

Q. Did you send a copy of it to Mr. Hoyt?

A. I did.

[fol. 3601] Q. Did you receive any communication from him about it?

A. I did.

Mr. Friendly: I would like to have marked for identification as the exhibit next in number P-149, a copy of a letter dated August 17, 1928, from Mr. Hoyt to Mr. Trippe.

pp. 1525-1526:

Q. Did Pan American, under the letter of August 31, 1928, act and join with Grace in organizing Peruvian Airways Corporation?

A. Yes.

Q. When was the organization meeting of Peruvian Airways Corporation held?

A. On September 6, 1928.

Q. And at that time did Pan American and Grace each subscribe to half of the capital stock of Peruvian?

A. They did.

pp. 1529-1531:

Q. Mr. Trippe, you have before you the letter of August 31, 1928, which appears on Page 46 of Exhibit P-34. I ask

you whether any suggestion was made before the sending of that letter that the company which is described in the fourth paragraph of that letter, in which Grace was given an option to participate, might operate north of the Canal?

A. There was not.

Q. After the receipt of the letter of August 31, 1928, what was done to carry out the plan which is set forth in it?

A. Peruvian Airways Corporation was organized. Mr. Harris was elected vice president, and I as Pan American's nominee was elected president and in charge of the company's operations as provided under our arrangement with the Grace Company.

The other three officers—Mr. Patchin, Mr. Bush, and Mr. Cogswell—were Grace officials.

[fol. 3602] Q. Now, would you turn, please, to Pages 48 through 50 inclusive of Exhibit P-34, and I ask you whether the extracts from the minutes of the meeting of Peruvian Airways Corporation set forth on those pages correctly describe the action taken at the meeting of September 6, 1928.

A. They do.

Q. What was done next to initiate operations in Peru or on the West Coast?

A. We arranged to have operations actually initiated by Mr. Woolman in the name of Huff Daland for the account of Peruvian Airways Corporation between Lima and Talara on September 13, 1928, utilizing one of the single-engine Fairchilds which Huff Daland had already in Peru. At the end of the month—

Q. (interposing). That is, the month of September, Mr. Trippe?

A. That is right. At the end of the month of September Mr. Harris arrived in South America and undertook a survey of the complete route from the Canal Zone to Valparaiso.

On November 28, 1928, Huff Daland concession was transferred into the name of the Peruvian company.

Q. Did the negotiations which Pan American had had instituted in Ecuador and Panama, to which you have testified, bear fruit?

A. Yes. The negotiations instituted by Mr. Woolman in

Ecuador during the summer of 1928 resulted in a contract obtained by Colonel Harris on February 22, 1929.

Early in 1929 Pan American obtained operating rights in Panama. The portion of these relating to the West Coast was subsequently assigned to Pan American Grace.

Q. In the fall of 1928 did you have any discussion of the Colombian situation with representatives of W. R. Grace and Company?

[Vol. 3603] A. Yes. We had several meetings during the fall of 1928 in Mr. Hoyt's office.

Mr. Hoyt, Mr. Patchin, the Grace vice president representing Grace, and Mr. Cogswell was also there most of the time.

Q. Mr. Hoyt and you represented Pan American; is that correct?

A. That is correct.

Q. Would you tell us what took place at those meetings?

A. We went over the entire program with respect to Colombia.

I recall that we discussed it at great length, working from a map which hung on Mr. Hoyt's wall.

Mr. Patchin confirmed that the rights along the West Coast would be obtained through our Colombian company for the joint company if Grace decided to come in, that similar rights would be obtained through our Colombian company for Pan American along the north coast, and that operations in Colombia would be conducted by our Colombian company itself.

Q. When you refer to the Colombian company you mean the company which you have previously described, known as Sacha?

A. That is correct.

Q. Did Mr. Patchin approve that program?

A. Yes; it is my recollection that he did.

Q. What did you do then with respect to Colombia?

A. We went actively ahead with the plan for solving the Colombian problem through our Colombian company Sacha.

Early in January Mr. Wilcox was able to leave for Colombia.

pp. 1532-1537:

Q. Is the document which has been marked for identification as Exhibit P-150 the letter of instructions which you gave to Mr. Wilcox prior to his departure for Colombia? [fol. 3604] A. Yes, it is.

Q. And does Paragraph 3 of the document, which has been marked P-150, embody the program which had been worked out at these meetings in Mr. Hoyt's office with respect to Colombia?

A. Yes, it does exactly as cleared.

Q. How did you intend the program, which is outlined in Exhibit P-150, to tie in with the arrangements set forth in the letter of August 31, 1928, from W. R. Grace and Company, in the event that Grace decided to exercise its option to take up to a 50 percent interest in the company to be formed?

A. The West Coast franchise from the Panamanian border to the Ecuadorian border was to permit the Colombian company Sacada to operate as subcontractor to the International American Flag operator which would be the joint enterprise in the event Grace exercised their option, or Pan American if they did not.

Q. Would you please explain to us what you mean by subcontracting?

A. Yes. There were several cases where our American flag company, operating the international service, for one reason or another, was unable to operate on its own account and had to subcontract sections to a national company—an associated national company.

For example, early in 1929 we had to subcontract operations to Mexico City to our Mexican subsidiary, and this continued for some years.

A similar arrangement was also carried out in Brazil with respect to operations along the East Coast.

Q. That is, before Pan American Airways, Inc. had a right to go through Brazil in its own name? [fol. 3605] A. That is correct.

Q. Were those subcontracting arrangements which you described known to the Post Office Department?

A. Yes, and approved by them.

Q. What happened in connection with the Colombian situation after your letter of January 5, 1929, to Mr. Wilcox?

A. Dr. von Bauer stopped at New York, returning from Berlin to Colombia, early in January 1929.

Q. Did you have any discussions with him?

A. I told him we were disappointed at the fixed position he had taken during the past year, and that Pan American was proceeding to organize its own operations in Colombia, having given up hope of working in Colombia through Scadta.

Q. Did Dr. von Bauer's point of view, as to making some arrangement with you, change after you had told him this?

A. It did, completely, and he was willing to deal with us.

Q. Did you come to an understanding with him?

A. We reached a general understanding, but he was unwilling to enter into a formal contract at that time.

Q. Was your understanding oral or in writing?

A. It was oral.

Q. Can you tell us the general terms of the understanding?

A. The general basis, as I recall it, was as follows: Pan American agreed to buy von Bauer's stock, his brother's stock, and any other European-owned stock that he could acquire and tender to us, provided that the total amount tendered was sufficient to give us complete stock control of the company.

He was to withdraw at once all opposition to the granting of permission by Colombia to our operating along both coasts of Colombia.

[fol. 3606] The management of Scadta was to remain in his hands. Representing the Colombian postal administration he was to conclude a postal agreement with the United States Post Office Department covering the onward dispatch of Colombian airmail.

He would give us the exclusive use of Scadta's facilities on the north and west coast in order to permit us to organize through services quickly.

Also it was agreed that at such time as we acquired a stock control of Scadta he would interpose no objections to Scadta operating only in the interior of Colombia, and

would give the Pan American Airways system preferential end-on connections at Colombia border ports.

Q. Did Dr. von Bauer lay down any conditions in regard to this understanding?

A. He did. Dr. von Bauer insisted, as a condition of the deal, that the entire arrangement be kept entirely confidential.

He took the same position when the formal contract was executed a year later, permitting us only to tell our general counsel Mr. Elihu Root and Mr. Friendly, who prepared the contract, and our board.

Q. What reasons if any did Dr. von Bauer give for this position?

A. He stated that it would be impossible for him to go back to Colombia if it were known that he was preparing to sell the controlling stock in the Colombian airline to American interests, particularly in view of the prevailing strong anti-American sentiment that prevailed in Colombia at that time.

He also pointed out, in view of the political situation, that we would not be permitted to hold the Scadta investment if the fact of our ownership became known in Colombia.

[fol. 3607] Finally, he pointed out that it would make it impossible for him to continue as the head of the Scadta organization, especially after the violent anti-American attacks that he had personally brought about in the public press and elsewhere during previous years.

Q. Did Dr. von Bauer carry through under the understanding that you have just described?

A. Yes, he did.

Q. What did he do?

A. He went at once to Washington to see the Colombian minister.

Q. Who was the Colombian minister at that time?

A. It was Dr. Olaya Herrera to whom I have already referred.

Q. What other steps did Dr. von Bauer take in pursuance of the understanding which he had with you?

A. By a letter dated January 28, 1929, he confirmed that part of the arrangement relating to the use of Scadta's facilities on the west coast of South America.

pp. 1537-1538:

Q. Can you fix the date of your understanding with Dr. von Bauer to which you have testified?

A. I cannot remember the exact date. However, I do remember that the arrangement was made at my apartment and on a Saturday or Sunday approximately a week or ten days before this letter of January 28, 1929, which you have shown me.

Q. Did you advise the State Department of the arrangements which you had made with Dr. von Bauer?

A. Yes. I advised the Secretary on a personal and confidential basis.

Q. Did you communicate to any officer of W. R. Grace and Company at the time the results of your conference with Dr. von Bauer?

A. I did tell them, about this time, about the agreement for the use of the facilities, but did not feel able, under the circumstances, to tell them the rest.

p. 1540:

Q. Taking the question as revised, Mr. Trippe, will you tell us how you planned, under your understanding with Dr. von Bauer, to work out the operation down the west coast?

pp. 1541-1542:

A. Under our arrangement with Dr. von Bauer we expected that it would be possible for the American flag services to operate along the coasts of Colombia in their own name.

Under the previous program relating to Sacaba, of course, we would have had to operate along the coast by subcontract to this company.

Q. Did you consider that this change would be an advantage or disadvantage to the proposed joint company in the event that that was formed?

A. This would be, in my opinion, a very great advantage to the proposed joint company if it were formed, and to Pan American Airways if it were not.

Insofar as the service in Colombia was concerned the change would merely substitute Scadta, a going organization, authorized to operate in Colombia, for a company which hoped to secure such rights.

In this connection, I think it would be of interest to the record to point out that Scadta is the oldest airline in the Western Hemisphere, and generally understood to be the oldest airline in the world along with KLM; the national airline of the Netherlands.

Q. Was one of the purposes for making the arrangement with Dr. von Bauer the opening of the way for the west coast airline?

[fol. 3609] A. Definitely. That was the most pressing reason for making the arrangement.

Q. Was an agreement subsequently made between the United States Government and the Colombian Government with respect to operating rights for air transport companies?

A. Yes. There was an agreement entered into between the two governments.

p. 1346:

Q. Now, coming back to the fall of 1928, will you tell us what other steps you took with a view to inaugurating air transport service down the west coast?

A. Pan American prepared very detailed and elaborate estimates as to the capital required for the proposed service.

Q. Did you submit those to W. R. Grace and Company?

A. Yes, we did.

Q. For what purpose?

A. For the purpose of enabling them to determine whether they wished to take up their option to the stock of the through airline, and of agreeing upon the capitalization of the airline in the event that they decided to come in.

pp. 1548-1550:

Q. How was the matter of the capitalization of the proposed joint company finally settled?

A. We finally compromised by setting up the company months later, with a capitalization of only one million dollars in lieu of the two million which Pan American had believed to be proper.

Q. Up to the end of January 1929 had Grace exercised its option to subscribe for any part of the stock of the company which was to be formed to operate from the Canal down the West Coast?

A. Not to the best of my recollection.

[fol. 3610] Q. Can you tell us when Grace did exercise its option to subscribe for half of the stock of the company to be formed to operate from the Canal Zone down the West Coast?

A. My recollection is that we were informed of Grace's final decision only a day or two before they actually subscribed on February 21, 1929.

Q. Did you submit the bid for Contract F.A.M. 9?

A. Yes. I was authorized by Pan American-Grace to submit a bid on this contract.

Q. And the bid so submitted appears on Pages 67 to 70 of Exhibit—well, without going into the pages, the bid you have before you—P-34—did you submit the bid which appears on Pages 61 to 64 of Exhibit P-34?

A. I did.

Q. And on March 2, 1929, Pan American-Grace was awarded the contract as appears by the order on Page 65?

A. That is correct.

Q. And the contract itself appears on the pages immediately following.

You executed that contract on behalf of Pan American-Grace Airways?

A. I did.

pp. 1556-1557;

Mr. Friendly: I would like to have marked for identification a document headed "Immediate Release, March 2, 1929, Information Service, Post Office Department."

Examiner Brown: The document referred to may be marked Exhibit P-156.

(The document referred to was marked Exhibit No. P-156 for identification.)

Q. Have you ever seen the document which has been marked P-156 before?

[fol. 3611] A. I have.

Q. Is it the press release which was issued by the Post Office Department at the time of the award of the contract for Foreign Airmail Route No. 9?

A. It was.

pp. 1599-1601:

Q. Reference has been made in prior testimony, Mr. Trippe, to a company operating between the Canal and Medellin, Colombia, known as UMCA. Does Pan American own a majority of the stock of this company?

A. Yes, we do.

Q. Who owns the rest of the stock?

A. A Colombian citizen, a Dr. Mejia.

Q. Can you tell us the circumstances under which Pan American came to acquire its ownership in this company?

A. Yes. Dr. Mejia had been interested in the development of cargo service by air from points in Colombia to the Canal and other areas. He had secured from the Colombian Government an exclusive franchise to operate air services from Medellin to the Colombian border at the Gulf of Uraba, the concession covering a zone 50 miles on either side of the line from Medellin to the Gulf. The concession also provided 12 months within which to make a survey and bring in outside interests to assist him in the development of the operation.

All this had occurred without any participation on our part. After acquiring the concession, Dr. Mejia came to New York to seek to interest capital. In the spring of 1931 he made an arrangement with us whereby we would undertake the survey and if this proved successful would join with him in the organization of a company to operate under the concession.

Q. Was the survey made?

A. Yes, it was made by Mr. Allan Winslow and by Captain Fred Clark, one of our senior pilots.

[fol. 3612] Q. Who was Mr. Allan Winslow?

A. Mr. Winslow was an American ace in the last war and the first American ever to bring down a German plane. He represented Pan American in Colombia at the time.

Q. Was the making of this survey by Pan American publicized in the Colombian press?

A. Yes, very extensively.

Q. Did Pan American thereafter proceed to organize, with Dr. Mejia, a company which is known as UMCA?

A. Yes, it did. UMCA is an abbreviation, the full corporate title being Uraba, Medellin, and Central Airways, Inc. UMCA is a Delaware Corporation.

Q. Was the concession with respect to operations between the Canal and Medellin, which had been originally granted to Dr. Mejia, subsequently transferred to UMCA?

A. Yes. In 1932, by formal action of the Colombian Government.

pp. 1606-1610:

Q. There has been testimony that in the fall of 1937 there occurred another discussion or controversy about the Cali operation. Would you tell us what gave rise to that, please?

A. The controversy followed the unfortunate loss of one of Pan American-Grace's two S-43's in attempting a night landing near the Canal. Since the operations could not be sustained with the one remaining S-43 and since the S-43's had proved to have insufficient capacity for this route as we had anticipated, there was another opportunity for considering the question of the equipment on the bottleneck between the Canal Zone and Guayaquil.

Q. What position did the Grace directors take at this time?

[fol. 3613] A. They wished to substitute twin-engine land planes and out through Cali on an interior route over which the type of plane proposed would have very considerably restricted carrying capacity.

Q. By the way, I think in that question I used the general term "the Grace directors"; actually, your conversations at this time were carried on almost entirely with Mr. Roig and Mr. Garni, were they not?

A. That is correct.

Q. And Mr. Patchin and Mr. Cogswell simply appeared at the directors' meeting and acted in accordance with the same views which Mr. Garni and Mr. Roig had expressed?

A. That is the case.

Q. And on your side the discussions were carried on primarily by yourself and Mr. Riffl with some participation by Mr. Young?

A. That is correct.

Q. Mr. Morris didn't get into these operating questions very deeply, either, I take it?

A. That is also correct.

(Discussion had off the record.)

Q. What position did Pan American take in these discussions?

A. We felt that this proposal was distinctly against the interests of Pan American Grace, and we again advanced the proposal of a nonstop direct operation between the Canal Zone and Guayaquil which we had been urging since 1933.

Q. Why did Pan American take that position?

A. The proposal of routing the international services on an interior route through Cali meant that all of our international passengers would have to be hauled on a roundabout course involving two crossings of the Andes [fol. 3614] and more than 180 miles longer than the direct route, although the direct route could then be operated by four-engine flying boats, and, of course, could be operated with even greater speed and capacity by the four-engine land aircraft which were expected to be soon available.

Q. Were detailed estimates of the relative speed and cost of operation with an S-42-B nonstop between Cristobal and Guayaquil and of operation with a DC-3 on the route through Cali prepared at this time?

A. Yes. The matter was gone into very thoroughly. Detailed estimates of the S-42-B operation were prepared by our staff and estimates of the DC-3 operation were made by Mr. Vidal, and each of them checked the other estimates.

Q. Did Pan American's proposal at this time contemplate that Pan American-Grace must purchase flying boat equipment from Pan American?

A. Not at all. We offered either to sell this four engine equipment or to charter it or to work out any other equitable arrangement that would enable this direct service to be instituted.

Further, because of the fears expressed by the Grace Directors as to the cost of operating the larger equipment, we offered a demonstration service of from three to six months under which Pan American itself would absorb any differential in the cost of operating the direct route with the four-engine equipment as compared to the estimates submitted by Mr. Vidal for operating the twin-engine land types.

Q. Just so the record may be clear, Mr. Trippie, there has been testimony as to an offer of a somewhat similar character made by Pan American in earlier years with respect to the S-43. I want it to be clear that this was an offer with respect to the S-42-B as against the DC-3, is that correct?

[fol. 3615] A. That is correct.

Q. You do recall a somewhat similar offer having been made in the earlier discussions of the S-43 as against the S-42-B?

A. That is also correct.

Q. Why was Pan American willing to make this offer?

A. For two reasons: first because of our interest in overcoming the Pan American-Grace bottleneck and offering greater capacity for through business to South America, and second because of our own interest in getting more business for our four-engine equipment between the United States and the Canal.

Q. Did Pan American's proposal contemplate that Pan American-Grace should entirely omit Cali by flying the direct route?

A. No, and I would like to stress this point. Our proposal contemplated that Pan American-Grace could carry the through traffic on the short low altitude direct route and would continue to serve Cali via a spur or shuttle route. We believed that this would provide maximum capacity and service for the whole west coast operation, and at the same time better serve Cali on the west coast of Colombia as well.

Q. In these discussions as to the land plane service into Cali at the end of 1937 as distinguished from the discussions in late 1936 and early 1937, to which you have testified with regard to the operation of the S-43 into Cali, did any question arise as to possible conflict between the proposed operation into Cali and Pan American's position in Medellin?

A. No. You understand that operation in Cali had actually been instituted before this time.

Q. That is, operation by Pan American Grace?

(Ed 3616) A. That is correct. We took the matter of the new land plane route up with Dr. von Bauer and he again agreed to support on the part of Seadta Pan American Grace's application with the Colombian Government for an interior west coast route.

Q. Do you know whether Seadta did in fact cooperate in the establishment of this overland route by Pan American Grace?

A. I know only that Mr. MacGregor expressed appreciation over the attitude and cooperation which Dr. von Bauer had extended.

pp. 1611-1612:

Q. Did the Pan American Grace management in the discussions in late 1937 and early 1938, recommend the operation of twin-engine land plane interior services to Cali?

A. Yes, they did.

Q. Did that recommendation have any effect upon Pan American's action?

A. Yes, it did. It was only because of their recommendation that is, the recommendation of the management that Pan American agreed to this operation.

Q. Does Pan American now feel that the decision made in 1938 to operate all of the through west coast flights via the interior land plane route through Cali was wise?

A. We do not, and have not at any time since. We believe that through traffic to Ecuador and points south should be by direct four engine service and that Cali should be served by a sour or slouth service as we have since 1938.

Q. What are the reasons for that, briefly?

A. We think that this twin engine service on a round

about route through the mountains of Colombia is decidedly fol. 1617, in regard to the direct service to Ecuador, Peru, Bolivia, Chile, and the Argentine, that could have been offered by Pan American Grace in conjunction with, first with the four engine S-42's, and later with the four engine Boeing 307's, and that Cali should be served by local trips or shuttle service in addition to the through international schedules. Much as on the east coast we run certain express services and other local services.

pp. 1613-1617:

Q. Did Medellin come into the discussions that took place in 1937?

A. Yes, in a certain way.

Q. Would you please state how?

A. The Grace directors were interested in being able to utilize Medellin as a refueling stop.

Q. Was there any discussion of Pan American Grace stopping at Medellin as a regular port of call for taking on and discharging traffic?

A. I think it was mentioned by the Grace directors, but we took the position that Medellin was not within Pan American Grace's territory and I understood that they agreed.

Q. Was there any further discussion on this subject?

A. Yes, there was some discussion as to what would happen if Pan American Grace should stop at Medellin for refueling, and there should then be pressure, either real or synthetic, for Pan American Grace to accept traffic at that point. We took the position that if Grace was in agreement with us as I understood they were, that Medellin was not in Pan American Grace's territory, that they should be willing in that event either to shift the route or to transfer the revenue from such traffic to Pan American in whose territory Medellin was situated.

fol. 1618. Q. After the discussions in 1937, was there any further suggestion of Pan American Grace's operating into Medellin by the Grace directors?

A. I don't recall any except when they suggested that Pan American Grace purchase our interest in U.M.C.A. and

thereby acquire by agreement the right to operate in this territory.

Q. Did Pan American at any time in these discussions in the fall of 1937 and early 1938, or for that matter, at any other time, suggest that it would withdraw its proposal of a nonstop service between Cristobal and Guayaquil if Grace would agree that Pan American-Grace was never to operate north of the Canal?

A. No. We never have made any such proposal.

Q. Why is that?

A. We felt that this question was covered in our original agreement and to our mind it had nothing whatever to do with the method of providing better service between the Canal Zone and the west coast countries.

Q. Was this matter of operation by Pan American-Grace between the Canal and Miami injected into the discussions in regard to Cali?

A. Yes, it was.

Q. When and by whom?

A. It was brought up by Mr. Garni at a meeting in my office immediately before the directors' meeting on January 27, 1938, at which we provided a quorum to enable the Grace directors to vote through their proposal for the interior land plane route.

Mr. Garni asked whether if Grace would not push its program for this interior route Pan American would agree to turn over to Pan American-Grace the service between the Canal Zone and Miami.

Q. Who else was present at that meeting?

[fol. 3619] A. Mr. Rihl and Mr. Roig, and Mr. Rihl made a record of the discussion immediately thereafter, and I have checked my own recollections against this.

Q. By the way, Mr. Tripp, where is Mr. Rihl now?

A. Mr. Rihl is now in Brazil.

Q. Could you tell us generally how long he has been there and what he is doing?

A. He has been there nearly a year, and he is engaged in active work with the Brazilian Government having to do with negotiations between our Brazilian subsidiary, Panair do Brasil, and the Brazilian Government with which the War and Navy Departments are also concerned.

Examiner Brown: We will take about a two minute recess.

(Whereupon a short recess was had)

Examiner Brown: Will you proceed, Mr. Friendly?

Q. Mr. Trippe, after this incident of January, 1938, to which you have just testified, when did W. R. Grace & Company next bring up the question of Pan American Grace's coming through to the United States?

A. Shortly after the Civil Aeronautics Act was passed in the summer of 1938.

Q. What position did Grace take at that time?

A. Grace demanded that they be allowed to take over control of Pan American Grace Airways through the purchase of additional stock, and that the Pan American Grace route be extended to some point in the United States such as New Orleans under their management.

Q. And what position did Pan American take?

A. Pan American stated that it was not interested in considering any such demand.

Q. Did Pan American give any reasons for this?

[fol. 3620] A. We considered, as we have always considered, that the operation conducted by Pan American Grace Airways is a part of the Pan American System and that it was our air connection down the west coast connecting with our trans-Caribbean and Central American services.

Q. What did Pan American suggest in an effort to meet the situation?

A. We suggested again that this conflict of interests be settled through a buy or sell arrangement.

Q. How was it that Pan American was willing to make this buy or sell offer in 1938?

A. Because we were convinced that this part of our system could be made more valuable to us than to W. R. Grace & Company.

Q. Did this buy or sell idea interest Grace & Company?

A. Yes, it seemed to at first. They went into the whole matter, examined the figures, and made us an offer.

Q. What was the offer?

A. Mr. Garni said that the top figure that he would recommend was \$1,250,000 for our half interest.

Q. And what position did Pan American take in regard to this?

A. Pan American's position was that it would pay substantially more than that for Grace's half interest.

Q. Did you inform Grace & Company of Pan American's position?

A. I did, and by letter.

p. 1617:

Q. What happened after you wrote this letter?

A. Nothing happened for some time. Then there was an exchange of letters between Mr. Iglehart and Mr. Whitney, then chairman of our Board.

[fol. 3621] pp. 1619-1623:

Q. After this meeting of the Pan American Board of Directors which was held on December 28, 1938, were there further talks between Mr. Iglehart and Mr. Whitney?

A. Yes, there were.

Q. Did those talks lead to any proposal being submitted?

A. Yes, they did lead to a proposal.

Q. Is the document which has been marked for identification Exhibit P-166 the proposal by W. R. Grace & Company in January, 1939?

A. It is.

Q. Is that the proposal which was discussed at the meeting of Pan American's executive committee on January 17, 1939, which appears on pages 42 and 43 of the Exhibit P-37?

A. It is.

Q. The minutes state that the meeting disapproved the proposed arrangement for granting authority to negotiate a standard of connecting service required of this company, under paragraph 2 with definite provisions for arbitration. Can you tell us why the Pan American directors disapproved the proposal which is Exhibit P-166?

A. The principal objection was that the only standard applicable to the connecting service was Grace's "reasonable satisfaction."

Q. Did you subsequently discuss this matter with Mr. Roig?

A. Yes, I did.

Q. Referring to Paragraphs 2 and 5 of the document which has been marked P-166, did Mr. Roig state whether Mr. Iglehart intended the arbitration provisions of Paragraph 5 to apply to the connecting service matter that is referred to in Paragraph 2?

[fol. 3622] A. Yes. He said that Mr. Iglehart had not so intended.

Q. Did Mr. Roig then make a substitute proposal?

A. Yes, he did.

Mr. Friendly: I would like to have marked for identification as Exhibit P-167 a paper consisting of one paragraph.

Examiner Brown: The document will be marked Exhibit No. P-167.

(The document referred to was marked Exhibit No. P-167 for identification.)

Q. Is the paper which has been marked P-167 a copy of the substitute proposal with reference to arbitration which was made by Mr. Roig?

A. Yes, it is.

Q. Did Pan American refuse to accept this also?

A. Yes, it did.

Q. Why?

A. Because although the language was different, the effect was just the same as the proposal which we had already turned down, namely, that if Mr. Iglehart disagreed with Mr. Whitney, the case was decided against us.

Q. And after this the arbitration clause in the agreement of February 14, 1939, which appears on page 16 of Exhibit P-35 was finally worked out and agreed upon?

A. That is correct.

Q. What reasons led Pan American to enter into the agreement of February 14, 1939?

A. We had tried every other compromise without success. We knew that because of Mr. MacGregor's desire to retire a new issue would shortly arise in an attempt to secure an independent president. It seemed best in the

interests of avoiding a stalemate that we accept the Grace suggestion on management in return for their agreement that the issue of the extension was not to be raised again [fol. 3623] except on the finding of an arbitrator that our connecting service was inadequate. We were, of course, also mindful of the ill effects of a public quarrel between the two principal American flag transportation systems in Latin America, ours in the air and Grace on the water.

Q. At the time of the 1939 agreement, did Pan American consider whether the agreement required approval by the Civil Aeronautics Authority, as it then was, under the section of the Act relating to acquisitions of control?

A. No. We did consult counsel on the question whether the agreement was one requiring approval under Section 412 of the Act, and were advised that it was not.

Q. Do you know the extent to which the matter was submitted to the Civil Aeronautics Authority?

A. Yes. I was present at a meeting where this problem was discussed with members of the staff of the Authority. There were present at this meeting Mr. Pogue, who was then general counsel; Mr., now Lieutenant Colonel, Gates; Mr. Cogswell; Mr. Cooper; Mr. Friendly; and myself. Mr. Cogswell representing Grace, and Mr. Cooper, Mr. Friendly, and myself, Pan American.

Q. Can you tell us what took place?

A. There was a good deal of discussion as to whether the agreement was one between air carriers. To the best of my knowledge, the question whether the agreement was subject to Section 408 of the Act was not discussed at all.

Q. Was Mr. Roig at that meeting?

A. He was not.

Q. Did the members of the Civil Aeronautics Authority staff who were present express any opinion on its behalf?

A. No, the discussion was entirely informal and both Mr. Pogue and Mr. Gates made it clear that they could not and would not attempt to commit the Authority as to whether the agreement should be filed.

[fol. 3624] Q. And was the agreement ever filed?

A. Not to the best of my knowledge.

pp. 1623-1627:

Q. When did Grace next bring up the proposal that Pan American Grace extend to the United States?

A. In the fall of 1940.

Q. What reason did they give for bringing up the matter at that time?

A. The reason given was the application which had been filed by American Export Airlines for a certificate between New Orleans and the Canal Zone. They said they were afraid that American Export would get this route as against Pan American, and would then find that the New Orleans-Canal Zone route did not offer sufficient traffic in and of itself, and would probably seek to extend its lines down the west coast in competition with Pan American Grace.

Q. In connection with this request by Grace, was any complaint made concerning the connecting service of Pan American between Miami and the Canal?

A. Not to my knowledge.

Q. Was any claim made by that time of breach by Pan American of the February, 1939 agreement?

A. No.

Q. What happened when the proposal was made?

A. We told the Grace people that we could see no reason for departing from our agreement of 1939 and that we were not impressed by the reasons which they had advanced.

Q. Was the proposal dropped?

A. We heard nothing further about it for some months.

Q. When did Grace again bring up this matter of extending Pan American Grace north from the Canal?

A. They brought it up again in the spring of 1941.

[fol. 3625] Q. What reason did they give for bringing it up again at that time?

A. It was again the New Orleans issue, which was now about to be heard.

Q. Were there further discussions of the matter during the spring of 1941?

A. Yes, there were, largely with Mr. Ruhl.

Q. Was there any change in Pan American's position?

A. No. Not at all.

Q. Some reference has been made to the failure of the Pan American directors to attend meetings of the Board of Directors of Pan American Grace at this time, which were called to consider the proposal that we have been discussing. Can you state what the reasons were for this?

A. The reasons were stated in a letter which Mr. Rild wrote to Mr. Roig while I was absent from the country.

Q. I call your attention to page 28 of Exhibit P-33, which contains a letter dated June 19, 1941, from Mr. Rild to Mr. Roig. Is that the letter to which you refer?

A. Yes, it is.

Q. This same exhibit contains on pages 30 to 32, inclusive, certain correspondence as to a request made by Pan American for a stockholders' meeting. Why did Pan American ask to have that meeting called?

A. We thought it would be well to have such a meeting at which the company's position would be confirmed by formal vote so that there would be no reason for Grace to keep bringing this matter up again in the future.

Q. Did Pan American attend the stockholders' meeting?

A. No they did not.

Q. Why not?

[fol. 3626] A. The night before the meeting our counsel, Mr. Friendly, and I were summoned to Washington on what we considered a very important War Department matter. We asked for an adjournment for several days over the fourth of July week end, but Grace declined to accord this.

Q. Were you advised by Grace during July that unless Pan American would consent—this is July, 1941—that unless Pan American would consent to the filing of an application by Pan American Grace for an extension north of the Canal, Grace would file an application for the New Orleans-Canal Zone route on behalf of its 100 percent owned subsidiary, Gulf and Caribbean?

A. Yes; we were so advised.

Q. Did Pan American make any request that Grace should not file that application?

A. None at all.

Q. Were you also advised by Grace during July that unless Pan American would consent to the filing of an application by Pan American-Grace, the Grace Company would request the Civil Aeronautics Board to institute a proceeding to determine whether Pan American was justified in the position it had taken?

A. Yes; that is correct.

Q. What did Pan American do as a result of that?

A. We told Grace that we had an agreement with them made in 1939 which provided for arbitration on this very question of an extension by Pan American-Grace north from the Canal Zone, and that although they had made no claim of any breach on our part, under the agreement, we were entirely willing to go to arbitration on the agreement as provided.

Q. Did Grace advise Pan American of its position in writing?

A. Yes, it was.

[fol. 3627] pp. 1698-1700:

Q. Now, let's get back to where we were. We just had marked for identification, I think, Exhibit P-168, which is a letter from Mr. Iglehart to Mr. Whitney. I don't recall whether you had stated whether that is a copy of a letter that was received by Mr. Whitney at about that time.

A. Yes, that is the letter.

Q. You testified this morning as to the position which Pan American took in regard to this proposed extension at the time and I ask you how Pan American's position was conveyed to W. R. Grace & Company.

A. It was conveyed by Mr. Whitney in two telephone calls to Mr. Iglehart, made during the meeting of our executive committee on July 21, 1941; both of these were heard by the other directors present as well as myself, and they were later confirmed in writing.

Q. Now, is the writing to which you refer the letter of July 22, 1941, which appears on page 36 of Exhibit 35?

A. Yes, it is.

Q. Did Mr. Whitney ever say to you that he did not consider the arbitration provisions of the agreement of Febru-

ary 14, 1939, to be applicable to an extension of Pan American/Grace to New Orleans?

A. No. Not only did he never say this to me, but his telephone talks with Mr. Iglehart during the meeting of our executive committee on July 21, 1941, which I heard, in which he requested arbitration under the 1939 agreement, related specifically to an extension to New Orleans.

Q. Would you turn, please, to page 24 of Exhibit P-37? There is a minute of the meeting of the executive committee held on July 22, 1941, which authorized the forwarding of a written communication confirming the telephone request which Mr. Whitney made to Mr. Iglehart for arbitration. Was Mr. Whitney present at that meeting?

[fol. 3628] A. Yes, he was, and our minutes so show.

Q. Did Grace ever answer the letter of July 22, 1941, proposing arbitration?

A. Not to my knowledge.

Q. Didn't they ever answer it?

A. Well, not for four months, and then only after we had again offered to arbitrate under our agreement.

pp. 1703-1704:

Q. Following Mr. Rihl's letter of July 22, 1941, did you have any further discussions with Grace & Company in regard to the Canal Zone-United States service?

A. Yes, we did.

Q. Will you please state what they were?

A. Late in July or early in August, 1941, Mr. Roig suggested that Pan American and Pan American-Grace might arrange for an interchange of equipment along the general lines of the interchange agreement between United Airlines and Western Air Express which had already been approved by the Civil Aeronautics Board.

I remember that Mr. Roig had the Board's opinion with him at our conference.

Q. What did you say to that proposal?

A. I said that it seemed a very constructive proposal and that I would be glad to discuss it further.

Q. Will you tell us, please, why Pan American looked with favor on this proposal?

A. For a number of reasons. We thought that the interchange of four-engine equipment between the two com-

panies at the Canal would be of benefit to the traveling public, eliminating the bottleneck between the Canal and Guayaquil. We thought it would be an operating economy to both companies as well. In addition, Mr. Roig's suggestion appeared to provide a solution for a principal, [fol. 3629] long standing controversy between our two companies which was distasteful to all concerned.

Q. Did you take the matter up with your executive committee?

A. Yes, I did, and they were unanimous in approving the interchange program.

p. 1704:

Q. Now, in putting this matter up to you, did Mr. Roig state that his proposal was an interchange along the general lines of the United Airlines-Western Air Express arrangement?

A. He did.

pp. 1705-1706:

Q. How was this matter of the interchange left by you with Mr. Roig?

A. There were a number of questions that were left open for further discussion. For one thing, the discussion had started on the basis that the northern half of the interchange arrangement should be the route between the Canal Zone and New Orleans for which Pan American had applied. However, Mr. Roig said that he would like to consider whether we would be willing to make the arrangement apply to the Canal Zone-Miami route either in substitution for or in addition to New Orleans.

Q. That he would like to consider or that he would like you to consider?

A. He would like me to consider.

Q. All right.

A. There were questions such as how we would arrange to have approximate equalization of the mileage flown by each company's planes on the question of flight crews and other operating details. While, of course, we did not reach an agreement on all these matters, we were close enough together to take the matter up with counsel.

[fol. 3630] Q. I will ask you whether Mr. Roig stated at the time of your conference with him that he would not ac-

cept any arrangement that would involve a reciprocal interchange.

A. He did not.

Q. Was a draft of an interchange agreement sent?

A. Not for some time. During the next two weeks Mr. Friendly had conferences first with me, then, I understand, with Mr. Cogswell and Mr. Roig, and still later with Mr. Roig and myself. As a result of this last conference we asked Mr. Friendly to work up a draft of an interchange agreement for consideration. Then Mr. Friendly was taken ill, and was out of the picture for several months. In the meantime all of us in Pan American were very much occupied with getting a trans-African transport and ferry route to the Middle East organized, and under way. This project was of such a nature that it took precedence over either Pan American or Pan American-Grace business. As a result, we did not have time to follow up on the interchange agreement.

Later such a draft was prepared by other counsel and was sent to Pan American-Grace early in November.

Q. By "other counsel" you mean other people in our office, do you not?

A. That is correct.

pp. 1707-1708:

Q. Had there been any changes in the equipment situation since your discussion with Mr. Roig in August, which affected the interchange agreement?

A. Yes. All my discussions with Mr. Roig on the interchange agreement had dealt with the interchange of four-engine equipment. By the late fall it was known that neither company could receive any of the four-engine land aircraft which it had ordered until the spring of 1943. As a result of [fol. 3631] this, the the only aircraft which could practicably be chartered were our Boeing 307's. We were not in a position to make a firm commitment with respect to these particular aircraft at the time nor did we ask any such commitment from Pan American-Grace, but we thought it desirable to set up a flexible arrangement under which these aircraft could be operated through to Guayaquil if they were available and Pan American-Grace was willing to accept them.

Q. Was Pan American willing to enter into an interchange agreement with Pan American-Grace along the lines of the United Airlines-Western Air agreement?

A. We definitely were, and have ever since, and are to-day. The United Airlines-Western Air interchange deal was an agreement entered into between two completely separate companies for the purpose of providing a through service of advantage to the public and also of advantage to both carriers. We, in Pan American, have never understood why our joint company should not be allowed to enter into such an arrangement with us. If the draft which we submitted differed in certain respects in form from the United Airlines-Western Air agreement, it was not our intention to depart from it in substance,—

A. (Continuing)—and if Mr. Roig had desired to work out an arrangement along the United Airlines-Western Airlines deal, we would have been entirely receptive to any suggestion for changes in the language of the draft.

p. 1709:

Q. Would Pan American have been willing to consider any other suggestions in regard to the draft interchange agreement which it submitted?

A. Yes, of course we would. The document submitted was our draft and we were and always have been willing to discuss the matter.

[fol. 3632] Q. Did you ever hear anything further from Mr. Roig about the interchange arrangement?

A. Yes. We got a letter from him.

Q. When was that?

A. Some weeks after we had sent him the agreement, and I think the day before Grace & Company filed its petition to have Pan American-Grace required to extend to the United States.

pp. 1717-1718:

Q. Was it [problem of Pan American-Grace extension in northern Argentina] so arbitrated?

A. No, it was not.

Q. Why not?

A. We had another meeting with the Grace people at which we suggested the name of an arbitrator. They agreed

to take his name under consideration. We urged that the arbitration be held as soon as possible and be in as simple form as possible. However, we were not able to get Grace to proceed with this arbitration.

Q. Did Grace deny that an agreement for payment to Pan American had been made?

A. No, not to my knowledge.

Q. Was this matter discussed in connection with the February 1939 agreement?

A. No, not to my recollection.

Q. Has the matter been dropped by Pan American?

A. Only in the sense that after several unsuccessful attempts to get Grace to proceed with the arbitration we did not keep bringing the matter up.

pp. 1746-1743:

Q. I think we have now reached a point where it is appropriate for me to ask you the question which was suggested be deferred yesterday:

[fol. 3633]. To summarise the reasons why Pan American has refused to consent to Grace's request that Pan American-Grace be authorized to apply for an extension of its route north from the Canal.

A. Pan American Airways, as early as 1927, had taken steps to organize an airline from the United States to the Canal Zone, and from the Canal Zone down the West Coast of South America.

A United States airmail contract between the United States and the Canal Zone was awarded the company in July 1928.

Prior to that time the active steps which I have mentioned have been undertaken by Pan American to provide service along the west coast.

This was all sometime before there was any arrangement for any possible participation by Grace & Company.

When Grace & Company finally did come into the picture it was only to take a \$25,000 participation in a small company which we were to operate in Peru, with an option to buy a half interest in our west coast airline if they decided to do so at a later date.

It was understood that, in the event Grace should decide to exercise their option, out through middle of the west coast was to be under our main line, and there was also a definite understanding outlining the territory to be served by the jointly owned company in relation to other parts of Latin America which were either already served or for which plans were under way on the part of Pan American.

In other words, the airline down the west coast of South America was either to be owned 100 percent by Pan American, or in the event Grace exercised its option it would be owned more by Pan American and up to 50 percent by Grace & Company.

In either event it was to be an integral part of the Pan American system under our operating control, just as much [fol. 3634] so as the line down the east coast of South America, or any other of the Latin American trunk line services that Pan American Airways system has developed in South America.

The West Coast airline is an end on carrier to our trans-Caribbean and Central American services. We have no competitive interests against it.

Every through air passenger down the west coast is a passenger carried over the Pan American lines either across the Caribbean or through Central America, and every through passenger coming from the west coast is a through air passenger over our trans-Caribbean or Central American services.

In this respect our trans-Caribbean and Central American services, together with the west coast service, provide a through Pan American system air service to west coast points and via the west coast to Buenos Aires, just as our service down the east coast of South America provides a through Pan American system air service to east coast points and via the east coast to Buenos Aires; except that Grace, having exercised its option, acquired as our partner on the west coast a 50 percent interest in the profits or losses of that sector.

Grace's suggestion that this west coast line of the Pan American system in which they are given the opportunity to acquire 50 percent of the stock be now made a competitor

to Pan American Airways is, in our view, a breach of the agreement between the two companies, which was first made in 1928, and which was reaffirmed in 1939.

If this company, in which Grace has had an option to purchase up to 50 percent were to be extended to Miami the company originally created to serve as our end-on connection for our Miami Canal Zone service would become the means of destroying that service, at least so far as through traffic to the West Coast of South America is concerned, [Vol. 3635] and thereafter Pan American-Grace Airways would not be part of the Pan American Airways system as it was set up to be, and which it has been all these years, but would be an airline competing with Pan American.

In this respect the effect on Pan American Airways of what is proposed here is quite different from that of the proposal that a competitive outside airline be authorized to fly between the United States and the Canal Zone, or even down the West Coast.

Under such a situation Pan American-Grace would continue to be a part, and a most important part, of the Pan American system.

The issue, therefore, as we see it, is not simply whether Pan American-Grace Airways should be allowed to fly between the Canal Zone and Miami in competition with Pan American, but also whether our west coast line now operated by Pan American-Grace Airways should be separated from the system, and Pan American would thereafter be deprived of the benefits of its end-on connection to west coast points which Pan American itself had under way before any arrangement with Grace, and which Pan American-Grace was organized to provide when Grace took up its option.

For these reasons, our directors have felt that the interests of our 9,000 stockholders in every state in the Union would be so prejudiced by this proposal of Grace that we were bound to oppose it in every way.

[fol. 3636]

By Mr. Cahill:

[pp. 2934-2936]

Q. Continuing on this. Can stop, Mr. Trippe: in your testimony, you stated on direct that the interior route to Cali involved a course more than 180 miles longer than the direct route to Guayaquil, page 1608. Do you recall giving such testimony?

A. Yes, I do.

Q. By the words "direct route," you are not referring to the route as previously flown along the coast, are you?

A. No, I am referring to the route as proposed by Pan American directors at that time and possible with the four-engine equipment.

Mr. Friendly: What page is that, Mr. Cahill?

Mr. Cahill: 1608.

Mr. Friendly: I can't find it there. If you are not going to offer any more questions, it is not important.

Mr. Cahill: We might as well check it up. I want the full page reference in the record.

(Discussion had off the record.)

Q. This route, you say, the Pan American directors favored, what was that route, Mr. Trippe?

A. It was the route from Cristobal to Guayaquil for the direct trunk line service and the route from Cristobal to Cali or Balboa to Cali for the local service.

Q. Now, this route from Cristobal to Guayaquil: was that the so-called Grace Circle Course or Route?

A. That is right.

Q. Now, this four-engine equipment that you say, the Pan American directors were suggesting at that time, was that land or marine equipment?

[fol. 3637] A. That was marine equipment with indicated delivery of four-engine inland equipment at a later date.

Q. When was the dated date for the delivery of the four-engine land equipment to which you refer?

A. Well, in 1939.

Q. Now, the DC-3 land plane has a faster speed than the marine equipment you refer to, has it not, Mr. Trippe?

A. Yes, slightly faster, block to block.

Q. What would you say—175 as against 150, for the S-42-B?

A. No, it would be my impression, perhaps about eight or nine miles an hour, cruising speed, long distance cruising speed.

Q. I want to be fair to you in these answers. Your own exhibit, I think, shows the deviation that I have suggested, namely 175 for the DC-3 and 150 for the S-42-B.

Examiner Brown: There may be a difference there in the cruising speed and the block to block speed.

Mr. Cahill: And the block to block, that could be?

The Witness: Yes, and, of course, that depends on the distance of the flight. The cruising speed has to come materially down when long distance flights are attempted with the DC-3.

Q. You agree with your exhibit P-161 as to the cruising speeds, do you not? That shows DC-3 cruising speed 175 and S-42-B cruising speed 150.

A. Again, you would have to interpolate as to the distances that you were going to consider the cruising speed at. For instance, if I can illustrate my point: with the four-engine Boeings, we have what we call a short-range cruising speed of around 168 miles an hour and a long-range cruising speed of perhaps 45 miles an hour less. In other words, the cruising speed has a direct relation [fol. 3638] to the distance of the attempted flight. It depends on the horsepower output of the engines and, of course, at a lower cruising speed, a larger pay load is available on extended distances.

pp. 2037-2038.

Q. And did you do it [ask Pan American Grace not to serve Medellín and Turbo]?

A. Some of the Pan American directors did it. Whether I did it or Mr. Rihl did it, I am not sure. The issue definitely came up and I understood was agreed to by the Grace directors at the time.

—By Mr. Harlan:

pp. 2129-2130:

Q. Turning to page 16 of this exhibit, the minutes of the executive committee meeting for August 3, 1937; in the last sentence, it is stated here that the president stated that there were "other circumstances," which made it desirable to transfer control of Scudta eventually to a group of native Colombians. Could you tell us what were those other circumstances?

A. Well, as I stated previously, that was about the time that we were suspicious that the Nazis might in some way have gotten control of Dr. von Bauer. We were rather suspicious because of the fact that both at that time and again a year later, there were offers to purchase control of this company by him, and I think the sentence you have reference to probably refers to a statement along those general lines, which I made to the Pan American executive committee as of that date. We had nothing definite to go by but it just didn't seem reasonable that he should be so anxious to pay us what we considered a very attractive [Vol. 3689] price for a substantial part of the stock which we owned in the company, and for that reason we more or less began to watch things in a way that we hadn't before, because up to that time there had been no suspicion on our part that he wasn't acting purely as an individual.

pp. 2131-2133:

Q. I understood that person, that is, that you were afraid there would be a conflict of interest with Panagra, but that was set forth in the preceding sentence, and then there is this sentence which says that there were other circumstances. I wanted to know what the other circumstances were.

A. It seems to me that that last sentence relates to that general subject, that it would be desirable in our opinion to have Pan American Grace hold part of this stock, and if that were not feasible that it would be desirable that control go not to Dr. von Bauer, even though a proposal was made at that time and at a later time which seemed very attractive, that from the point of view of the United States

and American aviation that it would be helpful that none of the preceding two things happen; that the control be placed in native Colombians, but we didn't see how there was any way to bring that about. This stock was bearers stock, you see, and there was no effective way that we knew of that we could assure it being held by any group of native Colombians. They would be free agents and it seemed that Dr. von Bauer was very anxious to acquire this stock and was willing to pay us what seemed to us a very high price to get control of the majority block.

Q. Actually control of Scadta never was put in the hands of the native Colombians; is that not correct?

A. No, the majority stock today is still owned by Pan American Airways.

[fol. 3640] Q. And you don't remember any other circumstances than those you have already related, which made it seem desirable to transfer that control to native Colombians?

A. No. Of course, there was always a possibility there that air transport might be brought under the same general type of restriction that prevailed with respect to other public utilities in Colombia. In general, public utilities in Colombia were required to be owned, so far as the majority of the stock was concerned, by Colombian nationals, but there again the question of Colombian nationals was difficult for American citizens to qualify for. German citizens would qualify as Colombian nationals by simply taking out papers and retaining their German citizenship as well. The question had arisen from time to time in previous years as to what effect this might have on the American position if a decree law was enacted in Colombia which would bring air transport within the same general type of restriction that applied to other public utilities. As a matter of fact, legislation along those lines was enacted, I believe, a year later, and it was a problem that I think it fair to state caused us and Pan American a lot of headaches and also caused Government officials concerned a lot of headaches.

Q. The legislation which was passed didn't require majority control to be in the hands of natives?

A. Yes, it did.

Q. How does it come, then, that Pan American still controls Senda?

A. Well, the date on which that legislation will become effective has been postponed. I don't think I can go into that unless we go into executive session.

[fol. 3641] By Mr. Reynolds:

p. 2179:

Q. What about the service?

A. (Interposing) Competitive to a minor degree, I would say.

pp. 2179-2181:

A.

I should state here also, Mr. Counsel, that under the laws of Colombia, as I referred to earlier this afternoon, there is a requirement that the majority of the stock of Senda, now called Avianca, be owned by nationals, and the date of that law becoming effective was 1942, so that had not some other circumstances intervened which we can't discuss here Pan American today would not be in a position to have Avianca, or what was formerly Senda, as a subsidiary, and it has not been by our action that that situation has continued during the past year.

I think, for the purposes of long range planning, it would be fair to state that Avianca will not be a subsidiary of Pan American Airways.

Q. Mr. Tripp, do you mean to infer that that your stock will be offered indiscriminately to anyone who wishes to buy it, or as a practical matter won't you be a bit careful about this new stock ownership interest?

A. To the greatest degree possible, definitely. I might say also in that connection, that the laws of Colombia have been changed so as to provide for registered stock, so that when the stock is ultimately transferred to Colombian interests it will be possible for the Colombian Government to be fully apprized of the ownership of the stock which, of course, is most desirable.

Q. Well, just as a practical matter, there is nothing to interfere in many sales of stock, offering the stock through

[fol. 3642] a bank or through a particular house, and having connected with the sale a privilege of a look at the brochure and determining whether it is acceptable to the seller that the stock will pass to his hands.

Now, there is nothing about the Colombian law or the Colombian setup that changes that picture, is there, Mr. Trippe?

A. Not that I know of. I felt that we have carried this investment at a considerable sacrifice in recent years, a sacrifice to our stockholders and to our company, and I am sure we want to continue to carry it until word is made known to us that the situation has changed.

Q. Now, with respect to the service to the point of Corumbá, is there any doubt in your mind but what Pan American and subsidiaries are in a competitive position with Panagra for traffic moving to and from that point, Mr. Trippe?

A. It would be my opinion that there is absolutely no competition with respect to traffic moving there. The route to Corumbá, together with our Brazilian company furnishing end-on carrier service between the Atlantic and Pacific Coast.

Q. Traffic from the United States to Corumbá, I suppose, is of an insignificant amount, but whatever there is from that point of origin to point of destination, you are in a competitive position; isn't that true?

A. I wouldn't feel so, no, sir, because of the much shorter distance to Corumbá by way of the west coast as compared to the service to Rio and thence backtracking to Corumbá.

Q. What would you say about Asuncion? Panagra enters into the picture itself there to a lesser extent than the east coast service, does it not?

A. Yes. I don't think Asuncion is all by Pan American-Grace at the present time.

[fol. 3643] Q. Any passenger seeking transportation from Miami automatically would be routed through Rio?

A. That is correct, yes, sir.

pp. 2187, 2189:

Q. Of course, before they actually did that, Mr. von Bauer was subject to the direction of Pan American through stock ownership, was he?

A. No, I wouldn't say that Dr. von Bauer was subject to the control of Pan American through the stock ownership. Definitely not through these years. You have got to appreciate the conditions in Colombia as they existed at the time. First, when we bought into the company, there was certainly a great hostility to the United States manifest in a number of directions. The good neighbor policy of this administration had not begun to take effect. Many citizens in Colombia looked back to what they considered the affront of the United States in backing up the independence of Panama and ultimately acquiring the Canal Zone. There was this controversy between Scadta, as then constituted, and our Government in an attempting to get into the United States.

There was the general fear of all North American activities at that time in Colombia.

Q. And Dr. von Bauer was independent enough that he wouldn't follow your direction even though you owned some 80 percent of the stock?

A. Definitely, because we felt that if we had an open controversy immediately there would be enacted legislation that would require that we divest ourselves of a majority of the stock. All other utilities in Colombia were subject to such regulatory legislation, and we felt that with the standing that the directors of Scadta had at the time, and did enjoy for many years thereafter, that an open [fol. 3644] controversy between Pan American and Scadta or Pan American-Greece and Scadta could only end in a decree law that would bring about an independence of the company, and we were particularly concerned about that fact for the period 1937 and subsequent years.

p. 2197:

Q. You have testified that your investment in Scadta has not been profitable, as illustrated by the fact that the dividends have only been two and a half percent.

A. Three and a half percent on our investment.

pp. 2214-2216:

Q. Mr. Trippe, why was it that Pan American acquired Nyrba in the first instance? Was it a matter of competitive possibilities or what?

A. No. I think Nyrba was just about ready to fold financially when we acquired them, and I think it was done only after the matter had been taken up with the Department of Justice and approval had to the purchase of Nyrba by that department.

Q. When you purchased Nyrba's entire assets, including aircraft, did you get any concessions or operating rights along in the deal?

A. Some we had to get out of in order to attempt to salvage bonds that were set up. Most of the concessions we thought were liabilities.

Q. In your purchase, you reimbursed Nyrba for its development costs?

A. Yes. Nyrba had on its books, of course, an item representing its own development activity, and I believe the purchase was on a basis of a balance sheet as of a certain date.

Q. The balance sheet included \$2,390,776.24 for development costs, according to the exhibits in the Pan American-Latin American rate case?

[fol. 3645] A. I wouldn't recall the exact figure.

Q. You will take that subject to check, anyway?

A. Yes.

Q. And the total book value per share of Nyrba stock was approximately \$10. Now, your original deal with Nyrba was to pay them cash, but, as the deal was consummated, you finally did exchange stock; that was the idea, wasn't it, Mr. Trippe? Didn't you pay in stock?

A. I don't think there was any original deal in terms of cash alone.

Mr. Friendly: Do you mind my stating, I have a fairly clear recollection of it. As I recall it, the purchase price was to be paid in two parts—the first half—this is my best recollection, was a specified number of shares of Pan American stock. The second half was to be either a certain

amount in cash or that same amount in cash translated into Pan American stock, at Pan American's option.

Mr. Reynolds: That was the first contract?

Mr. Friendly: That was the only contract. To be complete, I should say that the contract also provided that during the interval between the payment of the first installment and the payment of the second installment, a check would be made of the physical assets that were being transferred, and that to the extent that it was found that any of the representations or warranties which were made in the contract were not fulfilled, an equivalent reduction should be made in the second installment and a reduction was made—of course, I don't remember the exact figure.

A. That summary would be my recollection of the arrangement.

[fol. 3646] pp. 2218-2219:

Q. When you purchased Nyrba, it was still operating from New York to Buenos Aires, was it not, Mr. Trippe, or maybe Florida?

A. I think it was operating at the way through to Santiago, Chile, at least a spasmodic operation. I don't know whether you would name it with the named "scheduled operation."

Mr. Friendly: Just to get it clear, I just wondered whether you caught the phrase "from New York"?

Mr. Reynolds: I later added "and Florida."

A. It was Miami, I am confident.

Q. Where were they operating in the interior of Argentina when you bought Nyrba?

A. I think on the route Buenos Aires-Cordoba-Tucuman and Salta, would be my recollection. They were also operating across to Santiago, Chile, on the route Pan-American-Grace utilized.

Q. Let's concern ourselves with the operation from Buenos Aires to Cordoba to Salta, and I would like to know, Mr. Trippe, on what frequency Nyrba was operating at the time you purchased it.

A. On that route?

Q. Yes.

A. I wouldn't recall. The whole operation of Nyrba, to the best of my recollection, was spasmodic. In other words, there was no regularity to amount to anything.

pp. 2226-2227:

Q. That 1939 agreement was proposed and entered into so far as Pan American was concerned for the purpose of settling all your disputes and all your issues, wasn't it, Mr. Trippe?

[fol. 3647] A. No. I recall it was set up to take care of this suggestion by Grace that there be a northern extension by Pan American-Grace from the Canal to a point in the States, and we thought that there was definite machinery set up to cover any possibility of Grace asking for such an extension.

pp. 2238-2243:

Q. Now, Mr. Trippe, let's refer to the minutes of Pan American again, P. 37, Page 33, meeting of the executive committee of Pan American Airways, Inc., set forth under date of February 4, 1931, at the top of the page. If you will read that extract please.

A. Yes, I have read it.

Q. Can you tell us that that program was discussed with W. R. Grace & Company and was agreed to and put into effect?

A. Well, the program as I understand it relates to the desirability of a uniform postal structure.

Q. (interposing) Tariffs and schedules?

A. Yes.

(continuing)—being quoted to the Argentine government.

That, of course, is necessary under the international postal code practice of the Berne Bureau.

In other words, postal tariffs have to be coordinated not only in general zones but throughout the world. In other words Argentina has to be in a position of quoting its service, we being Argentina's contractor not the American Government's contractor, for postal service to all coun-

tries, including the United States, and obviously it would be impossible to have the Argentine Government in a position to be quoting different tariffs. They are all standardized throughout the world.

Q. This minute, you say, refers only to a uniform postal service as it affects your dealings with the Argentine Government?

[fol. 3648] A. That would be my understanding. And further also, while the quotations to Argentina were in terms of postal gold francs, they had to relate directly to the quotations for service in the reverse direction by the United States Government to the Berne Bureau, which of course were quoted partly in dollars, we being then on a gold standard ourselves, and partly in gold francs, and I think the tariffs were worked out in consultation with the Post Office Department officials concerned in Washington, particularly Mr. Lamielle, who was the expert on that subject.

Q. You do have uniform passenger and freight fares also between Miami and Buenos Aires via either coast, Mr. Trippe?

A. Yes, sir. I believe that has been the practice of the companies.

Q. And is that by definite agreement, Mr. Trippe, or by what?

A. No agreement that I know of. It is just a kind of arrangement that is usually entered into by different carriers serving a common point.

For instance, the domestic lines in this country operating, say, between New York and Los Angeles via different routes, will quote the same through tariffs between the common terminals.

Q. Mr. Trippe, has there ever been an occasion during the history of Panagra where lower rates have been proposed for Panagra, or a more rapid schedule has been proposed which you felt should not be put into operation, and therefore opposed, because of its possible effect on the east coast operation?

A. None that I know of. There was one schedule proposed, I recall, of a one-day service between the Canal Zone and Lima which we had certain reservations about as to its

practicability, but it was put in, and I don't believe ever carried out with any degree of regularity, however.

[fol. 3649] Q. That was a question of practicability and not one of faster flying time between Miami and Buenos Aires accomplished thereby on the west coast as compared to the east coast?

A. We had no objection to the schedule being filed, but we felt it was going to be difficult of accomplishment, and it was filed, and I don't think it proved to be practicable in later days.

Q. Since your rates are uniform between the common points Miami and Buenos Aires, and further since the distance actually traveled by Panagra is shorter, Mr. Trippe, just why is it that Panagra cannot operate at a lower rate for that through traffic than Pan American can on the east coast?

Examiner Brown: Will you read the question, please, Mr. Reporter?

(Whereupon the pending question, as above recorded, was read by the reporter.)

Examiner Brown: I don't understand the question, Mr. Reynolds.

Mr. Friendly: I wonder if Mr. Reynolds could rephrase that.

Mr. Reynolds: Yes, I would be pleased to.

Q. As a matter of business operation, Mr. Trippe, couldn't Panagra operate more reasonably from Miami to Buenos Aires in conjunction with the connecting service than Pan American could from Miami to Buenos Aires down the east coast, and thereby afford a saving to the public in lower fares?

A. Well, I think that is a question difficult to answer, Mr. Reynolds. First of all, the difference in mileage is not very substantial, you appreciate, over the cut-off on the east coast. Second, even though there was a fairly substantial amount, isn't that the sort of thing that is often down by carriers working between common terminals?

[fol. 3650] For instance, I have in mind the tariff between Miami and Cali. The distance is longer by way of Cristobal

than by way of Barranquilla, and yet Pan American absorbs a substantial part of the differential, don't you see.

In other words, to make the route by way of the Canal Zone to Cali as cheap, from the point of view of the public, as is the shorter route by way of Barranquilla to Cali.

Q. It is also the most costly route of the two which determines the minimum at which you can set a fare in that instance, is it not?

A. No. I would say it was just the reverse; that it is the lower rate of the two, because the tariff by way of Cristobal, which I have just referred to, I know was reduced to come down to the tariff by way of Barranquilla.

You see, Scandia operating in local currency and quoting their tariffs in Colombian pesos is able to quote a pretty low rate on the sector between Barranquilla and Cali, if my recollection doesn't fail me, and the rate by way of Pan American to Cristobal, and thence to Cali by Pan American-Grace, was reduced to meet the other rate, and Pan American took a substantial part of the reduction on that part of the route.

Q. It hasn't reached a point where anybody is losing any money on it, however; it is just a matter of not quite as much profit on the operation as otherwise would be the case?

Mr. Friendly: I wonder if we have enough data? It seems to me to determine whether you are losing any money you have to get into allocations of cost.

Mr. Reynolds: I think that will be stipulated, Mr. Friendly.

Mr. Friendly: We may be losing money on the whole passenger service.

Q. One other thing, Mr. Trippe, on the matter of rates and fares. If you have any question about my figures I [Col. 3631] assure you that they can be checked by counsel from the exhibits.

I would like to know why, over a period of years, it apparently has been necessary to have from two to five cents per mile higher fare on a mileage basis between Miami and the Canal Zone than it has been on practically any other

segment of the Pan American Airways operations or system.

A. Well, of course, the operation is a very considerably expensive one, as is particularly the case with a nonstop service, or for the service via Camaguey, or even for the service via Kingston as in the early days. The operation between Kingston and Cristobal, for instance, as compared with the operation between Kingston and Barranquilla was about 135 miles longer nonstop flight, and the pay load capacity of the plane was reduced not only to cover the gas for that amount but also the gas for the higher reserve that would have to be carried with the longer route in proportion to the reserve carried on the shorter route.

In terms of pay load, it would be my recollection that on the Commodore, for instance, there was frequently eight or nine hundred pounds additional pay load if service to Cristobal was operated via Barranquilla as compared to the service operated direct to Cristobal.

That is a very substantial part of the total pay load available for any equipment then in operation here or anywhere else in the world, and of course that makes the operation more expensive.

Another illustration would be the 307 direct service which would be a very good illustration.

Q. Larger aircraft and so on?

A. Larger aircraft and still a very limited pay load prepaid even on the carrying capacity of the larger aircraft over shorter distances.

[fol. 3652] p. 2255:

Q. Now, Mr. Trippe, I wonder if you know as yet who drafted the Panagra certificate of incorporation, who drew it up?

A. No, I don't. I have a suspicion, but I don't know.

Mr. Reynolds: Although that is not awfully good evidence, just to assist us, I wonder if we could have his suspicion as a suggestion?

Examiner Brown: I have no objection.

Mr. Cabill: We will state that.

Mr. Reynolds: You have that information?

Mr. Cahill: Yes. It was prepared under the supervision of Mr. Cogswell.

Mr. Reynolds: And is the same true of the Peruvian certificate?

Mr. Cahill: Yes.

**THE TESTIMONY OF JUAN T. TRIPPE IN CAB
DOCKET 3500 WHICH PAN-AMERICAN INTENDS
TO OFFER IN EVIDENCE.**

p. 3405:

By Mr. Friendly:

Q. Mr. Trippe, have you seen the exhibit which has been identified as Exhibit CON 24, which is entitled "Statement of negotiations relating to agreements between National, Pan American, Panagra, and W. R. Grace and Company"?

A. I have.

Q. Does that exhibit fairly represent what occurred insofar as it relates to meetings at which it is stated that you were present?

A. The meetings referred to occurred many months ago, and stretched over a very considerable period of time. Many different people were present.

[fol. 3453] However, insofar as reference is made to meetings at which I was present, the facts as outlined correspond generally to my recollection.

pp. 3408-3409:

Q. Would Pan American have entered into these agreements with National without a provision for stock participation?

A. No, I am confident they would not.

Q. Would Pan American accept, insofar as you know, a condition approving only so much of these agreements as relate to the leasing of equipment, but without provision for stock participation?

A. No, I am confident our Board of Directors would not accept such an arrangement.

By Mr. Hardy:

Q. Mr. Trippe, you stated that, with respect to the through flight operations between New York and Latin America, that you would also be faced with foreign competition.

Will Avianca compete with the National-Pan American-Panagra through flight arrangement?

A. Will they?

Q. Yes.

A. As far as I know they will. It would be a matter to be determined by the Board of that company.

Q. Well, Pan American owns what per cent of Avianca?

A. It owns something between 45 and 50 per cent, I believe, and has one director on the Board of Directors.

Q. You do not know what routing Avianca will fly in competition to this arrangement between National, Panagra and Pan American?

[fol. 3654] A. I haven't any idea. Avianca inaugurated their services to the States without any suggestion from us, and without, in fact, knowledge on our part that that decision was going to be reached.

By Mrs. Just:

Q. You do know, however, do you not, that Pan American Airways owns certain stock in Latin American companies?

A. That is correct.

Q. To what extent does Pan American participate in their management?

A. Well, as I attempted to outline yesterday, the larger companies in which we hold a minority position operated entirely independently of Pan American Airways.

Take, for instance, our largest single investment, which is Panair do Brasil. We hold one directorship on the Board of Directors of that company.

Without our knowledge, the Board of Directors of that company determined to inaugurate service between Rio and

Buenos Aires paralleling Pan American and have actually put such an operation into effect.

I would say that we sit as investors in these Latin American operating companies, in general.

p. 3643:

Q. Are there any wholly owned companies other than hotel companies?

A. Of a national character?

Q. Of any character, Mr. Trippe.

A. Well, of course, we have one company here, Uraba, Medellin and Central Airways, that is an American flag company holding a certificate in the United States, that [fol. 3655] operates a small shuttle between the Canal Zone and Medellin, that is a wholly owned company.

Q. And Pan American would participate in the management of that company?

A. Well, we own a hundred per cent of it. The Board of Directors is responsible entirely to Pan American, and it operates as a subsidiary under our management.

[Vol. 3656]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 411

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK
Civil Action No. 90-259

UNITED STATES OF AMERICA,

Plaintiff,

v.

PAN AMERICAN WORLD AIRWAYS, INC., W. R. GRACE AND
COMPANY, and PAN AMERICAN GRACE AIRWAYS, INC.,

Defendants.

TESTIMONY OF R. C. LOUNSBURY IN CAB DOCKET
779 WHICH PAN AMERICAN INTENDS TO OFFER
IN EVIDENCE

p. 2904:

By Mr. Friendly:

Q. Now, has it been the practice throughout the years to establish a uniform rate between Miami and Buenos Aires via both coasts?

A. Yes; it has.

Q. And in establishing those rates, whose route is controlling: Pan American or Pan American Grace?

A. Pan American-Grace route is controlling because it is shorter.

[Vol. 3657]

PAN AMERICAN WORLD AIRWAYS, INC., EXHIBIT 412

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK
Civil Action No. 90-259

UNITED STATES OF AMERICA,

Plaintiff,

v.

PAN AMERICAN WORLD AIRWAYS, INC., W. R. GRACE AND
COMPANY, and PAN AMERICAN GRACE AIRWAYS, INC.,

Defendants.

I. TESTIMONY OF H. J. ROIG IN CAR DOCKET
779 WHICH PAN AMERICAN INTENDS TO OFFER
IN EVIDENCE

pp. 745-751:

By Mr. Cahill:

Q. Now, Mr. Roig, if you want to resume your seat, I am going to go into the question of the organization of Panagra.

Are you acquainted with a man named Harold R. Harris?

A. I am. Very well.

Q. When, for the first time, did you meet him?

A. I think sometime around '29, '30 or '31. I can't recall the exact date.

Q. Had Mr. Harris been connected with a company known as Huff Daland Dusters?

A. Captain Harris, as he then was, was a World War aviator in the first war. He is at the present time a colonel in the United States Army connected with the Army Transport Service for which service he was released by Panagra at the very special request of General Arnold. His present title is Colonel and if you don't mind, I will call him Colonel.

Colonel Harris, following the first world war, had gone [fol. 3658] to Peru in the employ of Huff Daland Dusters, that company being engaged in dusting cotton by airplane. There is a great deal of cotton grown in Peru and the dusting problem is a serious one, and the airplane provided a method of covering large areas by dusting from the air.

He was connected with that business.

That company had a concession from the Peruvian Government which, in addition to covering its operations in Peru, also authorized it to undertake commercial operations carrying the mail from Peru to the United States.

Q. Now, when and where did you first meet Colonel Harris?

A. Well, as I have said, I don't recall the exact time or place. It was in one of those three years—'28, '29, '30. I met him on the coast in '30. I met him in Panama, I know, in the summer of 1929. Whether I had met him previous to that, I have searched my memory and I just can't be sure.

Q. Do you know what brought Colonel Harris to New York in the spring or summer of 1927?

A. Oh, yes—

A. I am very well acquainted as to what happened at that time.

Q. What happened?

Mr. Friendly: I would like to have it made clear in the record.

A. I have had conversations with Colonel Harris as recently as the last ten days.

Q. Now, will you tell us, Mr. Roig?

A. Colonel Harris is a man of a good deal of vision and while he was engaged in his operations in Peru, he had given a great deal of thought to the question of the importance of aviation development in South America. He had not merely thought and dreamed about it, but he had made extensive studies, some trips around, and he had collected a great deal of valuable data on the subject. He had gone further and he had actually prepared a map show-

ing prospective routes. That original map still exists. It is an historical document, and I think it ought to be in the record in this case.

Q. I show you this paper and I ask you is this a copy of matter which you told us Colonel Harris had at that time?

A. That is a copy of it.

Mr. Cahill: I ask that it be marked for identification.

Examiner Brown: The document referred to will be marked for identification as Exhibit G-52.

(The document referred to was marked Exhibit No. G-52 for identification.)

A. It is rather interesting to note how closely that map gives the Panagra route as it is operated today including the diagonal service.

It also shows the East Coast route more or less as it was operated prior to the inauguration of the cutoff service between Belem and Rio.

In the summer of 1927—spring or summer, Colonel Harris came to New York with his map and he went to see Mr. Richard Hoyt at that time a partner in the firm of Hayden Stone & Company.

Examiner Brown: Would you identify that company for the record?

The Witness: Hayden Stone & Company was a banking firm in New York City.

A. (Continuing) That firm had some sort of relationship or control over another concern which I think was called [fol. 3660] Keystone Aircraft Corporation, which, in turn owned the Huff Daland Dusters Company. It was natural, then, when Mr. Stone came to New York with his ideas and his project, to get some support for making it a reality, he should go to Mr. Hoyt.

Q. Mr. Hoyt was a partner in the Hayden Stone firm, I take it?

A. Oh, yes. And I think he was also—well, I know he was interested in commercial aviation development in two or three directions at the time.

Mr. Hoyt also, by the way, had prior to that time had various conversations with W. R. Grace & Company particularly Mr. Patchin, as W. R. Grace & Company had for some time following the Lindbergh flight, been making quite independently of Pan American, with any relationship to their similar activities at that time, studies of quite an extensive character collecting data, making contracts, secured a report from the late General Bard who made a goodwill flight around South America, had had an engineering report prepared, conferred with Postmaster General and other Government officials and gone into it in quite an extensive way.

A. When Colonel Harris made his call on Mr. Hoyt, Mr. Hoyt sent for Mr. Trippe—

The Witness: I endeavor to testify only to the fact that these—that such conversations took place, that I know of my own knowledge. I shall not testify as to the conversations and I shall not testify to what was said.

Examiner Brown: Go ahead.

A. I refer to the conversations of Mr. Patchin and Mr. Hoyt. Mr. Trippe came to Mr. Hoyt's office and discussed—Mr. Trippe, at that time, I might say, was one of the [fol. 3661] group that was interested in the formation of Pan American, which was then being formed, in one of its predecessor corporations. And Mr. Hoyt also at the same time and at the same interview suggested that Colonel Harris see W. R. Grace & Company, who had been in touch with him and were studying this question of South American aviation.

Colonel Harris did see representatives of W. R. Grace & Company and from that joint meeting there was later formed—well, and the discussions which ensued from it—there was formed Peruvian Airways, a \$50,000 corporation, of which Pan American owned half and W. R. Grace & Company, and that company subsequently was succeeded by the present Pan American Grace Airways, a one million dollar corporation with similar stock ownership.

Q. Peruvian Airways was organized in the fall of 1928, was it not, Mr. Roig?

A. That is right.

pp. 754-756:

Q. Now, turning to the first flights on the route, and beginning with Panagra's predecessor, Peruvian Airways; do you recall when it was that Peruvian Airways made its first flight on the route?

A. Yes, September 13, 1928. Just fifteen years ago, flight between Lima, Peru, and Talara, the big oil center in northern Peru.

Q. Was that a commercial flight?

A. Oh, yes.

Q. Did they fly a single-engined Fairchild on that occasion?

A. Yes.

[fol. 3662] Q. Now, starting from that standpoint, the route was thereafter extended, was it not?

A. I might use the map again.

Q. Yes, will you tell us how and when, to the extent that you wish?

A. Lima is here (indicating), capital of Peru. Talara is up here (indicating).

Examiner Brown: To the north?

The Witness: To the north, yes.

A. (Continuing) That was the first flight. From there the line was extended rapidly in both directions, north to Guayaquil and then following not the route shown on the map but a route proceeding to Salinas on the Coast and around the Coast up to Cristobal; southward the route was extended from Lima across Peru over the northern section of Chile, a nitrate and mining section, down through the beginning of the Agal section to Santiago, and from there it was carried over the Andes, not in a line including Cordoba at that time but in a straight line following the railroad from Mendoza to Buenos Aires and the mail was delivered in—the first mail from the United States was

delivered by Panagra in Buenos Aires on Columbus Day, October 12, 1929, slightly over a year after the initial flight.

Q. So that the first United States mail delivered in Buenos Aires was delivered by Panagra; is that true?

A. That is right.

Examiner Brown: Read that question back.

(The question was read by the reporter.)

Examiner Brown: Make that correction.

A. The mail had come from Miami to Cristobal via Panama. Panagra began in the Canal Zone then as it does today. To the best of my knowledge, the completion [fol. 3663] of that route to Buenos Aires carried American aviation farther from home than it had ever been before up to that time. Nyrbu was operating some services on the East Coast, but they were not connected through services to the United States.

Q. Was it after carrying of the first air mail to Buenos Aires by Panagra from the United States that the route was extended to Montevideo or was it before that time?

A. It was substantially at the same time. We flew across the Plate River which separates Buenos Aires from Montevideo and we did have a final terminal for some years at Montevideo and Uruguay.

pp. 759-760:

Q. I am going to take up that in a moment; but I am going to ask you two more questions along that line.

There have been differences in the Board of Directors, have there not, on the various steps in this program of development and progress that you mentioned?

A. There have on some of the steps but it would be a great mistake if anyone got the impression that there has been a difference of opinion on everything that happened.

Q. As a matter of fact, Mr. Roig, on all the questions up to the instant one, the extension to the United States, the differences have been resolved, have they not?

A. With the exception of the terminal in the United States and the publicity question, we have reached a conclusion among ourselves, yes, on all these questions.

Q. Leaving aside the publicity question for the moment, and also, of course, the instant question, which is for the Board to consider, these differences have not been permitted to block the steady progress and development of which you speak, in your opinion, have they, Mr. Roig?

[fol. 3664] A. Well, except to the extent that the present controversy has blocked for some years our coming to the United States, and that publicity may have had some bearing, I don't think very direct. The very fact that these other matters have been settled and that they have been in number relatively few, shows that they have gone on, and that isn't a matter of opinion, the record shows it.

pp. 836-837:

By Mr. Friendly:

Q. Would you say that, since your election as president, Mr. Rihl and Mr. Young and Mr. Dean had been cooperative in their approach to matters relating to Pan American Grace operations between the Canal and Buenos Aires, always omitting this question of publicity?

A. Well, omitting the question of publicity, the question is whether they had been cooperative in connection with this matter of the terminal in the United States?

Q. No, I said relating to the operation of the services between the Canal and Buenos Aires.

A. Oh, yes. The idea that we were in each other's hair all the time is nonsense, of course. We have been running a big business. We have been running it for 15 years and making a great success of it. Most of these questions that have been referred to, if they were controversial, it wasn't between the stockholders and the directors as such, and they weren't even controversial. It might be just things on which there was a difference of opinion.

I was anxious to get the opinion of Mr. Rihl and the others, not only because it might reflect the stockholder's opinion, but because they were experienced men in this business, and when we didn't agree about something it didn't mean there was a great stockholders' controversy [fol. 3665] about it; it was just the day to day the way people get together when you are running a business.

pp. 840-842:

Q. Going back to the initiation of the enterprise, did you have any personal participation in the negotiations that led up to the writing of the letter of August 31, 1928? By "personal participation" I mean participation in meetings other than among yourself and your associates.

A. No. As so defined the answer is no.

Q. Who were the representatives of W. R. Grace and Company who did conduct the negotiations with the representatives of Pan American?

A. Mostly Mr. Patchin, to some extent Mr. Cogswell, on at least one occasion Mr. J. P. Grace, and on one or two or perhaps three occasions Mr. D. S. Iglehart.

Q. So the record may be clear; Mr. Hoyt is now dead, is he not?

A. Yes.

Q. Has been since about '35 or '36?

A. Well, I wouldn't have thought it was quite that long, but five or six years anyway.

Q. In connection with Col. Harris' trip back to the United States, don't you know that that actually was in the fall of 1927?

A. My best recollection was that it was along about the spring of '28.

Q. You haven't verified your recollection against any documents as to that date?

A. Well, only relating it to the time when Peruvian Airways was formed, and the first flight of Panagra, which was in September 1928, and I thought that that date checked [fol 3406] with what Col. Harris told me the other day, but I might be mistaken on the date.

Q. Have you read Exhibit P-34, which contains various documents relating to this early history?

A. No, I don't think I have read that exhibit. I read the Pan American answer, and I read P-51, both of which were highly inaccurate in their statements.

Mr. Friendly: I move to strike that out.

Examiner Brown: It may be stricken.

A. I don't recall having read that.

Q. Don't you know that the concession which Huff Daland Dusters obtained in Peru on May 29, 1948, was obtained with a view to operation by Pan American?

A. I do not know that, no. I never heard it until this minute. First time I ever heard it.

pp. 934-937:

Q. Then, you had talks in July or August of 1941 with Mr. Trippe as to a possible settlement of the controversy between the two companies through an equipment interchange agreement, did you not?

A. A point was reached, I think, in '41 where I suggested as a possible solution whether it would not be possible to work out some plan under which Panagra might come through to a United States terminal over Pan American's franchise. I think in that connection I mentioned some adaptations of the rule in the Western Airline case, which was then a fairly recent decision, not, however, ever intending and making the making it very clear that I didn't intend that there should be a literal application of that, or that what I meant involved operations over Panagra's route by Pan American.

There were discussions of that subject with Mr. Trippe [Tel. 3667] and with Mr. Friendly, and I think I had one discussion with Mr. Root. The lawyers were to endeavor to prepare a draft agreement which might carry out such a program.

There was internal delay in getting the draft in shape, and, in fact, no draft was submitted until some time later when it was submitted in connection with some correspondence then being had between W. R. Grace & Company and Pan American, and it was submitted at that time as a proposal of Pan American's and not as an attempt to carry out the discussions which we had been having, and I was, of course, perfectly willing to accept it as a proposal of Pan American's, because it bore no resemblance to the proposal that I had made or the ideas that we had discussed.

That agreement which was called a traffic exchange agreement was a mere agreement of mutual options under which

Pan American had the option to tender four engine equipment to Panagra if they saw fit and Panagra had the option to accept the tender if they desired. Conversely, the other company had the same option. Neither could force the other to do anything. It was meaningless as far as Panagra was concerned, because, of course, Panagra had no four engine equipment at the time. It carefully provided a method of operation which would have meant that Pan American's crews would have operated Panagra's planes north of the Canal Zone so that none of the sanctions which have been discussed from the standpoint of operations and maintenance and so on would have existed.

The agreement from Panagra's standpoint, I considered, and always have, utterly valueless and essentially phoney.

Q. Did you ever submit a counter draft?

A. I did not.

[fol. 3668] Q. Isn't it a fact that after your talk with Mr. Trippe, Mr. Igleran told you that he didn't want anything done about this equipment interchange?

A. I was never told anything of the kind. I pressed and pressed and pressed. I pressed you and I pressed your office, and I pressed Mr. Trippe for a long period. I kept a diary of the telephone conversations and the stalls that I got, going on for months.

Q. You know you didn't press me, don't you, Mr. Roig?

A. I don't recall anything of the kind. You were taken ill shortly after, so you dropped out. From there on, I certainly didn't press you, Mr. Friendly.

Q. That happened about a week after your first discussions with Mr. Trippe, did it not?

A. When you became ill?

Q. Yes.

A. Well, you know, and I remember having a meeting with you in Mr. Trippe's office, and I think that was the last discussion I had with you on the subject. Whether we had had discussions prior to that meeting, I don't particularly recall. You are quite right. After you became ill, you dropped out of the picture for several months.

p. 1104:

By Mr. Reynolds:

Q Well, are your view that Panagra should or should not set up a joint arrangement in Miami, for instance, such as is in Buenos Aires?

A. I think Panagra in that event should have a more extensive traffic organization than it has at the moment. I would like, however, if it were at all possible, to work that out in such a way that we could cooperate and work with the [Vol. 3699] Pan American organization so far as that might prove possible, without prejudice to either company.

pp. 1150-1152:

Q. Now, when the LaPaz extension was under consideration in 1935, the Board of Directors meeting of January 2, 1935, the minutes for which appear in G 14 on page 73, authorized Grace to acquire the LaPaz rights.

Mr. Friendly: Just for the sake of clarity, Mr. Reynolds, those are the minutes of W. R. Grace & Company.

Mr. Reynolds: Correct.

The Witness: What is the page reference?

Mr. Reynolds: G 14, page 73.

Q. You explained that somewhat in your testimony yesterday, I believe, Mr. Reig, but I am still not clear as to why Panagra did not take those rights in its own name in the first place.

A. Well, because although Bolivia had been under discussion for a long time, going back several years before this date, the opportunity to secure the concession to operate this route, and with a subsidy from the Bolivian Government, by this route, I mean from LaPaz to the Pacific Coast point, originally TACA, later Arica, that opportunity came up quite suddenly, was presented by cable, and it called for prompt action, finding which the concession would have been given to someone else, and I immediately got in touch with the Pan American—I don't recall at that moment whether it was Mr. Trippe or Mr. Rihl—to secure their approval to Panagra's accepting the concession, and they took the matter under consideration and it was some time before they got around to making up

their minds, and the business couldn't wait that long, and in order to save it, W. R. Grace & Company took the concession in its own name.

[fol. 3670] Q. At that time there was no president of Panagra? Mr. MacGregor apparently didn't have authority to go ahead and do that himself; is that right?

A. Well, that is correct, and it is not a matter which would ordinarily be done by anyone without the approval of the Directors.

Q. Did you know, previous to the time when the opportunity arose, that Pan American had some objection to it or not?

A. No, I don't recall.

Q. It was just a matter of not being able to get a decision; is that it?

A. That is the situation as I recall it.

pp. 1172-1173:

Q. Mr. Roig, to what extent do the needs of the east coast service enter into the setting of the rate for the west coast service?

A. I don't know to what extent the east coast factors may have influenced Pan American. They have not influenced Panagra's decision as to the rate except that it may have occurred to us that, in the earlier days—to some extent now—that on a mileage basis the west coast rate might be lower, but it is a well-known fact in transportation that mileage is not always by any means the determining factor and no matter how low we made the rate on the west coast Pan American could have made an equal or lower rate on the east coast, regardless of mileage.

Q. In your rate-making procedure has Pan American never suggested that a certain rate would have to be higher, or couldn't come down because they just couldn't meet it on the east coast?

[fol. 3671] A. I don't recall any such issue having actually been reached in any of my discussions.

Q. Incidentally, when both companies operated for a short time between Montevideo and Buenos Aires, the

rates there were the same for both services, were they not?

A. I don't recall that.

Q. It was quite a way back.

A. Yes. And not a very important factor. I would assume that they had been.

pp. 1347-1348:

By Mr. Cahill:

Q. Some questions were put to you by Mr. Friendly, as I recall, in regard to concessions obtained by W. R. Grace and Company, Mr. Roig; do you recall that?

A. Yes, I do. I can't add very much to the answer that I gave at that time. Grace and Company has had considerable experience over the years in dealing with governments of all these different countries in relation to matters which might or might not be termed concessions, and there have been some that could technically be called that, I suppose.

In the days when we got permission to operate mole or dock properties in different countries, permits would be required there.

In the Canal Zone, when we erected our building, being in the zone, arrangements had to be made with Canal Zone authorities for permission, and there have been a variety of similar negotiations and dealings with various government departments in the different countries on a variety of matters.

II. TESTIMONY OF H. J. ROIG IN CAB DOCKET 525 WHICH PAN AMERICAN INTENDS TO OFFER IN EVIDENCE

p. 3613:

By Mr. Gambrell:

Q. Will you, as one who has long studied air transportation between this country and Latin America, state whether [Vol. 3672] in your opinion there is sufficient traffic potential between the United States and the Canal Zone, to support an air service in addition to that of Pan American?

A. I really have not made a complete study of that question. My studies have been limited quite largely to the feasibility and desirability of Panagra's extending through that sector to a gateway in the United States, and the considerations which governing decisions under that heading only to a slight extent are related to the local traffic movement between Balboa and the United States. In other words, there are many considerations back of that position which have no relation whatever at all, and which are, therefore, applicable only to Panagra.

III. TESTIMONY OF H. J. ROIG IN CAB DOCKET 3500 WHICH PAN AMERICAN INTENDS TO OFFER IN EVIDENCE

pp. 4633-4634

By Mr. Schneider:

Q. Why does not Panagra now operate through flights beyond Balboa over the routes of Pan American to either Houston or New Orleans?

A. Well, I think up to -- Is the Pan American New Orleans route in operation by Pan American now?

Q. New Orleans-Balboa route?

A. Yes.

Q. By Pan American?

A. Yes.

Q. It has been in operation for a long time.

A. I was thinking of something else when I asked that question.

The reason that, up until the time of last July, when I ceased to be president, Panagra had not gone into those other areas was because the volume of traffic at the time didn't seem to justify it.

Vol. 3673. Q. You don't consider that you are under any legal disability at the present time from operating your planes the right to New Orleans and Houston, do you?

A. Our agreement with Pan American gave our through flight agreement -- provided specifically for New Orleans. I don't remember if it covered Houston or not.

Q. That is, the agreement provided that when Pan American obtained non-stop rights from New Orleans to the Canal Zone, that the agreement would be extended to permit Panagra's flights to go through to New Orleans?

A. That is right.

Q. And it is your testimony that Panagra has not done that. What is, availed itself of that opportunity, because it doesn't consider at the present time, that sufficient traffic is available? Is that your answer?

A. That was the reason up until last July, as far as I was concerned.

pp. 4644-4646:

Q. If these agreements are approved in their present form, is it your opinion that Pan American and Panagra will still be in competition for traffic from New York to Buenos Aires?

A. Oh as far as Panagra is concerned, our competitive position will be vastly improved.

Q. Will the two companies be in competition with each other for that traffic?

A. Definitely so, and more so from Panagra's standpoint.

Q. How will that competition be effected? Separate ticket offices?

A. No.

Q. Same ticket offices? You would continue the present arrangement in Buenos Aires, with the same ticket office?

A. As far as I know.

Q. Well how will the competition become effective?

A. I might point out

Mr. Burnett Goodhead:

"The Witness: As far as B. A. is concerned, the common ticket office there, I don't know whether you are aware that Panagra also has its own representatives in Buenos Aires."

By Mr. Schneider:

Q. But you have only one ticket office, do you not, and that is shared by Pan American and Panagra?

A. Yes, a consolidated ticket office, quite a common practice.

Q. What happens when a passenger walks in, Mr. Roig, and wants to go to New York?

A. Well, judging by the volume that has been moving on the West Coast in recent months, I think Panagra gets a fair deal.

Q. That wasn't the answer to my question.

I said what happens when a passenger goes into that ticket office and says, "I want to go to New York."

How is he handled, by the clerks in the ticket office? Do they give him a time table and tell him to take his pick, or do they tell him that it is better up the West Coast because they have DC-6's, with sleepers, as compared with the DC-4 sleeperettes on the East Coast?

A. Well, I haven't been in the position of actually doing it, but from my conversations in Buenos Aires with people who have been, it is my understanding that they tell the man the facts about both trips.

If he is a passenger who is going to stop in Rio, or for any reason wants to come up the East Coast, that settles that.

[fol:3675] Similarly, if he wants particularly the West Coast, that is easy.

If he is a through passenger to New York, and not interested in the stops, he would be told that on the West Coast he had a Panagra DC-6 and a shorter schedule; and that no doubt he would be told that on the East Coast while it took a little longer he could come straight through to New York and avoid the connecting service at Miami.

Q. In other words, as far as that passenger's handling in that office is concerned, no special effort is made by Panagra to attract that man to Panagra?

A. Oh yes.

Q. No special effort is made by Pan American to attract that man to Pan American's line?

A. I hope the counterman is in that position.

Q. You hope he is attracting him to your line?

A. No, no, because I wouldn't expect to get that kind of an unfair break.

I hope the counterman is reasonably neutral, but fair to both.



But, the influence on the passenger has been exercised very frequently by a Panagra solicitor, or by, tomorrow, an organization there, or by Panagra advertising, or vice versa, by Pan American's advertising.

Q. But as to a man who walks in there without having been approached by Panagra or Pan American in advance, when he goes in there he is given a complete story of both services, and no special effort is made to route him one way or the other?

A. That is my understanding; and that is the terms of our agreement with Pan American.

Q. That is an agreement of 1939, which has been renewed?

A. No, the through flight agreement.

[fol. 3676] Q. The through flight agreement?

A. Yes. And all I can say is that judging by the results it works out reasonably well.

pp. 4648-4649:

Q.

Will you tell me how Panagra competes for a passenger to Buenos Aires, with Pan American, other than by its own separate ads in the magazines?

A. Well, we have in New York the general traffic manager of the line and his staff, in the New York Office, who are actively promoting, in a variety of ways, the merits of the West Coast service.

Q. Well, they are the general headquarters personnel. They are not the solicitors, and so forth, that you have out on the line.

A. Well, we haven't any lobby towers in traffic. They are pretty active.

Q. When Mr. deGroot was your general traffic manager, he wasn't running around the streets selling tickets.

A. Well, he was coming pretty close to it. He was traveling around visiting the travel agents and keeping in contact.

Q. Is it your testimony that the general headquarters personnel in New York are your traffic organization in New

York, and that is all? Is that the only traffic organization you have in New York?

A. That is the Panagra traffic organization, yes.

Q. Otherwise, you rely upon Pan American's organization in New York?

A. Well, yes, but don't forget we rely very largely on the travel agents, as they do too, and we maintain direct contacts with them.

[fol. 3677] Q. Right. But if a passenger, wanting to go to B.A., walks in to the Pan American office of New York, how is he handled? In the same way as he is in Buenos Aires?

A. That is the idea. The agreement also, you will recall, provides that in principal Pan American U. S. traffic offices we would have a special Panagra representative and he is supposed to look after the situation.

pp. 4707-4708:

By Mr. Russell:

Q. In that regard, I noticed that the contract which you and National agreed upon, that is National's Exhibit Nat-98—you will recall, I am sure—provided for a term of 99 years, whereas the agreement which was finally signed and presented to the Board for approval here, contemplates expiration in 1960. That is the most distant date.

Can you tell me why you didn't work out a 99-year deal, as you started to?

A. Well, I think the 99 years reflected—as that number of years always does—an idea of permanency, and that is what we had in mind in just picking out that symbolic figure.

Actually, our previous experience had shown that there wasn't much likelihood of getting approval of 99 years. The Pan American-Panagra agreement, I think, was submitted in that form and the Board cut it down to three.

I don't think I was present when the 10 was put in, but I presume that was thought to be a little more realistic.

pp. 4726-4727:

By Mr. Hardy:

Q. With respect to your statement, Mr. Roig, you make great ado about the fact that it has been your ambition for some 21 or 22 years to get a route from Balboa through to New York; isn't that correct?

[fol. 3678] A. Yes.

Q. Did Panagra ever apply for such a route?

A. No.

Q. It did not?

A. No.

Q. Would you consider that if you had such a route, that it would be better than the deals at issue here?

A. Yes.

Q. In any respect? I mean in all respects.

A. Not in all respects, but in many respects.

I think from the standpoint of the traveling public, which is a very important factor, assuming that this agreement works out satisfactorily, the result would be substantially the same.

But from the standpoint of the company, and the owners, why naturally you would have a very handsome profit if you had this route all the way through as your own.

[fol. 3679]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 413

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK
Civil Action No. 90-259

UNITED STATES OF AMERICA,

Plaintiff,

v.

PAN AMERICAN WORLD AIRWAYS, INC., W. R. GRACE AND
COMPANY, and PAN AMERICAN-GRACE AIRWAYS, INC.,

Defendants.

TESTIMONY OF ROBERT H. PATCHIN IN CAB
DOCKET 779 WHICH PAN AMERICAN INTENDS
TO OFFER IN EVIDENCE

pp. 3059-3061:

By Mr. Cahill:

Q. Mr. Patchin, when did you first meet Mr. Richard F. Hoyt?

A. In May 1928—no, I met Mr. Hoyt a year or so previously, but not in any relation to aviation.

Q. What position did Mr. Hoyt occupy at the time, Mr. Patchin?

A. Mr. Hoyt was a partner of Hayden Stone and Company of New York City.

Q. Did you meet Mr. Hoyt prior to the formation of The Aviation Company of the Americas, which was formed in June 1928?

A. Yes. I met him in May.

Q. How did you happen to come into contact with Mr. Hoyt?

A. Well, in the course of my affairs about aviation and the study on the subject, I heard that he was very much

interested, very active. There were a number of companies in the aviation situation stirring up the development of the business.

[fol. 3680] I heard of him, was told by persons of his activity, and I called him up one day and went over and called upon him.

Q. I show you a memorandum dated May 23, 1928, entitled "Memorandum for Mr. Iglehart", relating to a conversation had by you with Mr. Hoyt.

Mr. Cahill: I ask that this be given a number for identification.

Examiner Brown: It will be marked for identification G-143.

(The document referred to was marked for identification as Exhibit G-143.)

By Mr. Cahill:

Q. I ask you whether G-143 accurately sets forth the substance of your conversation with Mr. Hoyt related therein.

A. I believe it does; yes, sir.

Q. This memorandum was made practically contemporaneously with the conversation with Mr. Hoyt, was it not, Mr. Patchin?

A. Yes, sir.

Q. Will you tell us how many conversations you had with Mr. Hoyt between May and August of 1928?

A. I can not recall the number, but there were several where I talked with him in his office, and I believe he came over and called on some of my associates in Grace and Company. I used to meet him occasionally outside.

pp. 3097-3098:

By Mr. Friendly:

Q. I would like to ask you a few questions about your talk with Mr. Hoyt on May 23, 1928. Do you have a copy of G-143 before you?

A. Yes, I have it.

Q. I want to refer to the statement in the second paragraph: "It is his understanding that the Post Office Department [fol. 3681] ment will soon advertise for bids for mail service from Cuba to Colon via Central America and later will advertise for bids on a mail contract from Colon to Valparaiso," and then consider in connection with that the sentence at the bottom of the page: "He said that he recognized that we were in an advantageous position which was the reason why he hoped we could cooperate with the Pan American Airways, but that if we were disposed to go ahead on our own, he would be inclined to stand aside," and so forth. Now, is it your testimony that this offer to stand aside applied to the Cuba-Colon route or to the route farther south or to both?

A. I think it applied more particularly to the west coast of South America.

Q. I think you testified this morning that Mr. Hoyt told you either at this talk or shortly thereafter that Pan American was planning to move right in on the route to the Canal, had he not?

A. I think he left me with that impression. How definite that was, I don't know. I notice it isn't mentioned here, but that was implied, at least.

Q. Did you, on behalf of Grace & Company, express any interest in this Cuba-Colon route?

A. No, we did not.

p. 3099:

Q. Now, it did come to your attention, did it not, that this route from Cuba to the Canal or, rather, as it turned out, a route from the United States to the Canal, which Mr. Hoyt told you about, was advertised on May 31, 1928?

A. Yes.

Q. You knew that that had been issued, did you not?

A. The advertisement was issued on the 31st of May?

Q. Yes.

A. Did I know it when?

[fol. 3682] Q. Did you know it shortly thereafter?

A. I am sure I did.

Q. Did W. R. Grace & Company consider submitting a bid on that route?

A. No.

p. 3127:

By Mr. Wanner:

Q. Referring to that sentence, the first sentence of the second paragraph, did his [Mr. Hoyt's] statement in that connection indicate to you that he had in mind financial participation of W. R. Grace and Company?

A. Not entirely.

Q. You say "not entirely"?

A. No, I don't think so; I don't think it was just that.

Q. Did it include financial participation?

A. Well, I suppose so, yes.

Q. You don't know definitely, though?

A. Why, yes. He had said that they were obliged to raise some capital.

Q. Pardon me?

A. The memo says that they were obliged to raise some capital—over on the next page. It says they would require people to come in.

[fol. 3683]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 414

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FOR THE SOUTHERN DISTRICT OF NEW YORK
Civil Action No. 90-259

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PAN AMERICAN WORLD AIRWAYS, INC., W. R. GRACE AND
COMPANY, and PAN AMERICAN GRACE AIRWAYS, INC.,

Defendants.

TESTIMONY OF W. F. COGSWELL IN CAB DOCKET
779 WHICH PAN AMERICAN INTENDS TO OFFER
IN EVIDENCE

pp. 3311-3312.

By Mr. Reynolds:

Q. Mr. Cogswell, you drafted the charter for the Peruvian Corporation, as I understand it, as set forth in Exhibit G-105; is that correct?

A. I drafted it or it was done under my supervision, yes.

Q. And with whom did you consult after having prepared the draft?

A. I have no distinct recollection on that point, Mr. Reynolds.

Q. Do you know whether it was submitted to Mr. Trippe or any of the gentlemen of the Pan American organization?

A. I have no recollection either in the affirmative or the negative. In other words I don't remember doing it and I don't remember not doing it.

Q. Well, do you remember from what source if any you took the statement of purposes set forth in that charter?

A. I think I probably took the statement of purposes from the charter of some airline.

[fol. 3684] Q. But you have no direct recollection on that; is that right?

A. Well, I know that Mr. Morris sent me, at Mr. Tripper's request, the charter of a Delaware corporation known as the Buffalo Central Airlines, I think it was, and I had that, and then I sent that back, and I think I may have used that as a guide.

Q. And was there a meeting of the representatives of the two owners to approve the charter before the actual process of obtaining a certificate of incorporation was undertaken?

A. I have no recollection that there was, and I have no recollection that there wasn't.

Q. Now, when you drafted that charter, I suppose you have no recollection as to whether there was any discussion as to the territory in which the company was to operate; is that right?

A. I don't recall any.

Q. When you drafted the charter for—

First, I assume it is understood that you also drafted the charter for the original Panagra corporation also.

A. That is right.

Q. And, in drafting that charter, you merely copied the purposes in substance from the previous charter; is that right?

A. Yes, I think so.

Q. That is, the previous charter of the Peruvian company.

A. That is right.

[fol. 3685]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 415

IN THE UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF NEW YORK

Civil Action No. 90-259

UNITED STATES OF AMERICA,

Plaintiff,

v.

PAN AMERICAN WORLD AIRWAYS, INC., W. R. GRACE AND
COMPANY, and PAN AMERICAN-GRACE AIRWAYS, INC.,

Defendants.

TESTIMONY OF DOUGLAS CAMPBELL IN CAB
DOCKET 3500 WHICH PAN AMERICAN INTENDS
TO OFFER IN EVIDENCE

pp. 4905-4906:

By Mr. Burns:

Q. Mr. Campbell, have you a judgment with respect to the success of the through flight with Pan American, so far as traffic is concerned?

A. Yes.

Q. Would you give us that judgment, please?

A. In the 12 months preceding the inauguration of the through flight operation, namely, the period June, 1945, to May 31, 1947, inclusive, the through passengers carried by Panagra and Pan American from Panagra points, to and from Miami, numbered 12,322.

Examiner Brown: 12,322?

The Witness: That is correct.

In the 12 months period after the inauguration of the through flight agreement, which began May 31, 1947, the number of through passengers was 14,865; and it will be noted from our Exhibit PGR-23; to which I added the actual

1949 figures yesterday afternoon, that in the calendar year 1949 the number of passengers to and from Miami was 17,613.

[fol. 3686]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 416

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK
Civil Action No. 90,259

UNITED STATES OF AMERICA,

Plaintiff,

v.

PAN AMERICAN WORLD AIRWAYS, INC., W. R. GRACE AND
COMPANY, and PAN AMERICAN-GRACE AIRWAYS, INC.,

Defendants.

TESTIMONY OF THOMAS J. KIRKLAND IN CAB
DOCKET 3500 WHICH PAN AMERICAN INTENDS
TO OFFER IN EVIDENCE

p. 5066:

By Mr. Russell:

Q. When have you investigated last the Pan American reservations center in Miami to determine whether it was performing competent service for Panagra?

A. I personally investigated it about three weeks ago.

Q. Did you find everything in order?

A. As far as I was concerned, yes.

[fol. 3687]

PAN-AMERICAN WORLD AIRWAYS, INC. EXHIBIT 417

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

Civil Action No. 90-259

UNITED STATES OF AMERICA,

Plaintiff;

v.

PAN-AMERICAN WORLD AIRWAYS, INC., W. R. GRACE AND
COMPANY, and PAN-AMERICAN-GRACE AIRWAYS, INC.,

Defendants.

Excerpts from the testimony of W. Irving Glover, Second
Assistant Postmaster General of the United States.

1. *Hearings on H.R. 7213 and H.R. 8337, Before the Committee on the Post Office and Post Roads, House of Representatives, 70th Cong., 1st Sess. (Jan. 12, 1928), pp. 15-17*

Mr. Glover. Mr. Chairman and gentlemen, the Postmaster General has covered the subject so fully that there is very little left for me to say, I am afraid. Speaking to the Pan American air bill, I want to say that I believe the Post Office Department, with the other executive departments, are intensely interested in this. There is a great deal, sir and gentlemen, that I would not like to go on the record. I would like to have just a round-table talk with you for a minute and tell you the picture back of this.

The Chairman. Do you wish this off the record?

Mr. Glover. If I may, please.

(There then ensued discussion which the chairman ordered not reported.)

Mr. Glover. I can say, with the great strides aviation has taken in this country, that there is no concern in the

United States, as rich, strong, and big as they are, that [fol. 3688] can start a line from Key West and go to Cuba and across the long stretch of air there down the coast, the same line that Colonel Lindbergh has taken, and open our markets and increase the trade in Central and South America, and do it on the proceeds they receive on the freight and express they carry without Government backing. We must be fair and honest with ourselves, and the Government has to stand by us for a while.

The Chairman. Was Colonel Lindbergh's trip promoted by the Government?

Mr. Glover. No, sir. I think that was entirely financed from his own pocket, if I am correct. But he has led the way, and within a few hours at their meeting in conference in Habana—our President goes down there—they will discuss these matters. They want to be friendly with the United States. They are friendly, but they are demanding air mail service. They want you to come down there and cut down the upward of 12 or 14 days from the capital of Costa Rica to New York, and if we do not do it they are asking, "Well, then, you have no objection to our taking our place in the world by having these foreign lines fly over the Panama Canal, through Mexico, into the United States," and it is a very difficult thing for us to say, "No, gentlemen, we will not establish any air mail service from the United States, and we will not permit any air mail to come into the United States with foreign capital."

Mr. Kelly. The Department of Commerce has assured me, General Glover, that our business with Central and South America decreases just as we have no communication. For instance, the further away and the longer it takes to make communication, business drops off, and the Bureau [fol. 3689] of Domestic and Foreign Commerce insists that if we could get rapid air mail transportation we will get increased business.

Mr. Glover. Absolutely right. Here is the French line who have gotten past the stage of talking about a bill. They have introduced a measure in the French House of Deputies, and they have appropriated millions of gold francs for a line from France to South America, and we stand

idly by and debate the question of whether we should go into Pan America, or whether we should close the door and say: That field is entirely lost to the American commercial interests, and, gentlemen, I make the prediction that we are slowly slipping in Central America and Pan America.

Mr. Ramseyer. What is your opinion if this bill were made into law, and you could make the proper negotiations with Mexico and the Central American countries, whether you have got companies here who are able and willing to go into this and do this work?

Mr. Glover. At the present time the contractor for the route between Key West and Havana is pioneering the way themselves, taking the dollar out of their own pockets. They have bought a plane and they are putting on three of their own representatives and they are going over this very same route, down through the Central American countries, just a tour of good will.

Mr. Ramseyer. They are doing it now?

Mr. Glover. They are preparing within the next 10 days, the Pan American Airways.

Mr. Romjue. I notice on page 2 of this bill there are two methods provided for the pay for transportation of the mail. For instance, it says in one place it shall not exceed \$2 or more.

[Vol. 3690] Mr. Glover. Yes.

Mr. Romjue. And in the other instance it is based on poundage.

Mr. Glover. Yes, sir.

Mr. Romjue. In view of what the General has said about the development, and with which I agree, does that really mean we have only one method and that by poundage, because if they were getting \$2 per mile only, wouldn't that have a tendency to lessen the development of the mail?

Mr. Glover. That was put in there for the express purpose that we did not know whether we wanted to pay the contractor on the poundage basis or the mileage basis. It is so much in the creative state that nobody knows.

Gentlemen, I hold nothing up my sleeve. This line has to be subsidized and the amount of that subsidy will depend

upon the action of you gentlemen after you have given us the authority, and we want it either on the pound rate or the mileage basis.

Mr. Romjue. I don't see any harm in that.

Mr. Ramseyer. Did you say this line has to be subsidized or not subsidized?

Mr. Glover. As I say again, this line must be subsidized for a period. We must stand back of whoever takes it over.

Mr. Ramseyer. Of course it would depend afterwards on the appropriations Congress made.

2. *Hearings on H.R. 11801 Before a Subcommittee of the Committee on Appropriations, United States Senate, 70th Cong., 1st Sess. (Dec. 10, 1928), pp. 29-30*

Senator Overman. I can see where it would be of great benefit, but it will be very costly, because the returns will be very little, I suppose.

[fol. 3691] Mr. Glover. I will agree to that, Senator. It will always be costly; but the great South American countries, where is the last stand of commercial development, I think should be claimed by the United States. I am sorry I did not bring with me a map of the French line, the Aerial Postale, which is already flying three days a week from France right to the east coast of South America; and if it had not been that your Post Office Department had started circling the Caribbean Sea by putting in these contracts, they were already knocking at your door, asking to come in with the foreign lines, the French, the Germans and the English; and of course the State Department was far from happy to know that these foreign lines were coming in asking that they be received at Colon and flying on to Key West.

3. *Hearings on the Post Office Appropriation Bill, 1931, Before a Subcommittee of House Committee on Appropriations, House of Representatives, 71st Cong., 1st Sess. (Nov. 19, 1929), p. 128*

Mr. Byrns. Suppose you should establish a line from Buenos Aires. As I understand it, this line now extends from Santiago to Buenos Aires, across the Andes.

Mr. Glover: Yes, sir.

Mr. Byrns. Would it be the idea to keep all of those routes in operation? In other words, if you had a line down the east coast to Buenos Aires, would you then continue the other line across the Andes, for which we are paying a pretty high price?

Mr. Glover. Yes, sir; I admit that.

Mr. Byrns. What would be the advantage of having a route between Buenos Aires and Santiago?

Mr. Glover. The advantage would be this, that we have to keep it there alongside the parallel line of the French and Germans, which is now going over there. The advantage would be in paralleling their line. The Germans are coming up the west coast now, paralleling the Pan American Grace Line. It is just a question for you to decide whether you want to withdraw from down there and leave it to these foreign aggressions, so far as the commercial development is concerned.

Mr. Byrns. Are those private lines, or are they under the Government?

Mr. Glover. They are private lines, just as ours are.

Mr. Byrns. But they are being subsidized by the Government.

Mr. Glover. Yes, sir. The French have just within the year subsidized the French lines to the extent of \$5,000,000 gold additional.

4. *Hearings on the Treasury and Post Office Departments Appropriation Bill (H.R. 8351) Before a Subcommittee of the Committee on Appropriations, United States Senate, 71st Cong., 2nd Sess. (Feb. 5, 1930), p. 20.*

Senator Oddie. Mr. Glover, can you tell us in a brief way, what the activities of the foreign air-mail companies are, the foreign aviation companies?

Senator McKellar. He has just been telling us about that.

Senator Oddie. I was out of the room then.

Senator McKellar. He just covered that a few moments ago.

Senator Oddie. The activities, for instance, between the west and the east coasts of South America.

Mr. Glover. The principal development there, Senator, has been the development of the aeropostale, which is a

very heavily subsidized line by the French Government, having a contract for 10 years with a subsidy of \$8,000,000 a year, and they are flying from Toulouse down to Dakar, and across to Natal, and to Pernambuco, and so on, down the coast. It is a very successful service. They have some 40 ships in operation, 80 pilots, and it is a very worthwhile organization.

[fol. 3693] The Germans are also coming across from the west coast of Africa to the east coast of South America through the Deutch Lufthaus Co.

Just recently one of the officers of the company has been here, and called on the Postmaster General, and I had the pleasure of talking with him, and he told somewhat of the developments down there and what they have in mind.

Senator Oddie. Well, what are their arrangements for transferring mail from the American ships to the foreign?

Mr. Glover. Well, that is a problem that we have had to meet, Senator. Of course, you can understand that that is a problem, and we have never been interested in allowing foreign countries to come into the Panama Canal Zone. You can, of course, appreciate why.

Senator Oddie. Yes.

Mr. Glover. But there is a certain condition in the northern tier of States of South America which made it necessary for us to get down across there, and in turn for that we would have to give them landing rights in the Canal Zone, and so that has been done; and we are perfectly willing now with our American lines which are now operating from Cristobal over to Paramaribo—we are willing to meet the French and German, there and take their mail and carry it into the zone ourselves rather than allow foreign operated companies to come in there, which would be the result if we did not go down into that territory.

The whole Caribbean Sea has been covered by air mail lines and the northern territory of South America has been covered as far as Paramaribo, on the east coast, and covered as far as Montevideo, by the line going down via Santiago and over the Andes, as I said, to Buenos Aires and Montevideo, and so only that space in South America [fol. 3694] from Montevideo up via Rio and around the cape to Paramaribo is not covered.

Senator Phipps. Now if we contract for a new line from Montevideo up to Rio, we will be duplicating foreign lines now in existence, will we not?

Mr. Glover. Yes, sir.

Senator Phipps. That are operating now.

Mr. Glover. Yes, sir.

5. *Hearings on the Post-Office Appropriations Bill, 1932, Before a Subcommittee of the House Committee on Appropriations, House of Representatives, 71st Cong., 3rd Sess. (Nov. 15, 1930), pp. 127-128*

Mr. Wood. In these contracts that are now running, have you any way of scaling these contracts so as to bring the amount that you will have to pay out within this appropriation of \$7,000,000?

Mr. Glover. On some of the lines we can do that. We did that on No. 9, from Cristobal to Montevideo; we reduced that for the second trip. The rate was \$1.80 and we reduced that to \$1.60 for the second trip.

Mr. Wood. That is the largest one you have?

Mr. Glover. Yes, sir.

Mr. Wood. Can you do that with some of the rest of them?

Mr. Glover. No, sir; we can not.

Mr. Wood. Why?

Mr. Glover. Well, the provisions in the contract will not allow a reduction, and we feel that these lines that have gone down there and pioneered into Central America and South America ought not to be cut down the same as we might some of the other lines.

Mr. Thatcher. It would have to be a voluntary matter on their part? In other words, under your contract, have you any discretion in the matter?

[fol. 3695] Mr. Glover. No, sir. In the lines to Central and South America, when you take into consideration the fact that our Government has spent almost \$40,000,000 in lighting the way, giving radio service, intermediate landing fields, and all the safety that goes to the art of flying in this country to our operators here, when you consider that these operators have gone down to Central and South America and have had to pay their way, they have had to pay

for their radio stations and their weather reports and all their landing fields, you will understand the situation.

Mr. Wood. How are you getting along on those two lines in South America, one on the east coast and one on the west coast?

Mr. Glover. Since you gave us permission last year to increase the frequency on the west coast, the business has also increased, and the business on the east coast is now united with the service across the Andes.

[fol. 5396]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 418

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK
Civil Action No. 90-259

UNITED STATES OF AMERICA,

Plaintiff,

v.

PAN AMERICAN WORLD AIRWAYS, INC., W. R. GRACE AND
COMPANY, and PAN AMERICAN-GRACE AIRWAYS, INC.,

Defendants.

Excerpts from the testimony of Walter F. Brown, Postmaster General of the United States (1929-33); *Hearings Before the United States Senate Special Committee on Investigation of Air Mail and Ocean Mail Contracts*, 73rd Cong., 2nd Sess. (1934)

pp. 2458-2463:

The Chairman. May I ask you to read this letter into the record, please, sir, if it is your signature? First, I will ask you to read the one of July 2, 1931, from Captain Doe to you.

Mr. Brown. Do you want me to read this one first?

The Chairman. Yes, because it precedes the other one.

Mr. Brown (reading). "July 2, 1931" - it is on the stationery of Eastern Air Transport, Sperry Building, Manhattan Bridge Plaza, Brooklyn, N. Y. [Continues reading:]

Thomas B. Doe, President.

Hon. Walter F. Brown.

Postmaster General, Washington, D. C.

Dear Sir: The situation in Cuba is rapidly coming to the point where, in order to protect our interests and carry out our agreement with the Cuban Government, it will be necessary for us either to enter into a working agreement with Pan American or an open fight. Up to the present they have, through control of the business from Miami to Havana, made it difficult for us to develop as we should. Twice I have taken steps to prevent lines being opened between Miami and [fol. 3697] Havana, in hopes that Mr. Trippe would eventually see the wisdom of concentrating on the through business and leaving the local business to our Cuban company.

At present we are operating mail and passenger lines from Havana to Santiago and from Santiago to Antilla and Baracoa, under government guarantee that enables us to about break even. Cubans resent the moves made by Pan American to encroach on the strictly Cuban business, and I am convinced that the money and effort spent by Pan American in trying to force us out of Cuba is building up ill-will, whereas a proper working agreement, which would enable us to proceed with our plans to develop the Cuban business would build up good-will for both of us and effect important economies.

I believe that a continuation of the present attitude would result in another service from Miami to Havana, with a working agreement between the Seaboard Air Line Railway and our Cuban company. I also believe that the Cuban Government would welcome such a

move, as it would produce more traffic and therefore more revenue for Cuba. They, of course, know that Pan American has a \$2 a-mile contract, and many of them feel it is unfair for this to be used as a club to prevent their developing their own aviation.

I am making every effort to arrange a proper agreement, rather than have an open fight, and I am taking the liberty of enclosing letter from Mr. E. W. Smith, receiver for the Seaboard Air Line, and also letters from Mr. W. D. Pawley, president of our Cuban company, which, of course, were meant to be confidential and which I would appreciate your returning to me.

I would not presume to bother you with this matter if it were not for the fact that we wish to, in every way, cooperate with your plans for development of aviation, and do not wish to make any move which is contrary to your desires. I appreciate that you are loath to step into these matters, but would certainly like to have such indication of your wishes in this matter as you might feel at liberty to give me.

Very truly yours,

Thomas B. Doe.

The Chairman. Will you look at the next letter and see if that is your signature, and if it is, read it into the record, please.

Mr. Brown. I think it is. It is very badly blurred, but I think probably it is.

[fol. 3698]

July 7, 1931.

Capt. Thomas B. Doe,

Eastern Air Transport, Inc., Sperry Building,
Brooklyn, N. Y.

My dear Captain Doe: Your letter of July 2 has received careful attention. While I, of course, appreciate the desirability of cordial relations existing between the various interests that are carrying the mails by air, I am of the opinion that the Department ought

not to be drawn into controversies that are wholly outside our jurisdiction.

I have stated frankly to the air mail operators that in the present state of the industry it did not seem the part of wisdom to invade each other's territory with competitive services and that I did not believe that money paid for postal service should be used to set up services to injure competitors. In pursuance of this policy I suggested the abandonment by the Pan American Co. of the domestic field in the United States, and as a result of that suggestion you are now negotiating with the Pan American Co. for the taking over of their Atlantic City service. Their field is the international service to Mexico, Central and South America, and the West Indies. Consistently with the policy outlined, it would seem improper for any of our domestic air mail operators to use mail pay to invade the peculiar field of the Pan American Co.

For your information I have another letter from Mr. Vidal, of the Ludington Lines, protesting against the extension of your service to Atlantic City, and again offering to carry the air mail from New York to Richmond at a saving of a thousand dollars a day over the compensation paid the Eastern Air Transport Co.

Sincerely yours,

And apparently my signature.

The Chairman. I see you stated in this letter, "In pursuance of this policy I suggested the abandonment by the Pan American Co. of the domestic field." Is that correct?

Mr. Brown. The Pan American Co. on numerous occasions tried to edge into the domestic field, and I thought as they were getting \$2 a mile for their operation, and we were paying these domestic fellows just barely their out-of-pocket costs, that that was not a good policy.

The Chairman. Did you suggest, as you have stated here—

[fol. 3699] Mr. Brown. That Pan American keep out of the domestic field?

The Chairman. Yes.

Mr. Brown. Yes.

The Chairman. Did you also suggest that other companies keep out of the foreign field?

Mr. Brown. Well, I suggested to Doe very plainly there, I think, that that seemed to me a wise disposition of the services in the state of the art at that time, where it could live only on a subsidy.

The Chairman. I will ask you now to look at this letter to the Secretary of State, dated June 25, 1929, and if it is your signature, read it into the record.

Mr. Brown. It is my signature.

Office Postmaster General,

June 25, 1929.

The Honorable Secretary State,

My dear Mr. Secretary: I have your letter of June 21 in the matter of rendering diplomatic service to American companies seeking concessions to the establishment of service to Guatemala and El Salvador.

As stated in previous correspondence, the Pan-American is the contractor on route no. 5 between Miami and the Canal Zone, whose contract provides for extension of service on the route to Guatemala and El Salvador. The same company is contractor for this Department on air mail, route no. 8 from Brownsville, Tex., to Mexico City, or Vera Cruz, Mexico, and the contract for service to that route provides the service may be extended to Vera Cruz, Port of Mexico, and—

Some other place I cannot pronounce—

Mexico to one or more places in Mexico. This does not apply for air mail service. Since the Pan American Airways has a contract for this Department under

which service may be extended, it is requested diplomatic assistance be rendered that company in preference to any other company.

The Chairman. May I ask, Mr. Brown, if it is not true you wrote a number of other letters to the State Department [fol. 3700] ment asking them to give a preference to Pan-American in South American countries over all other companies, American or foreign?

Mr. Brown. I don't remember any such letters. If you have them, I will be very glad to tell you whether I did.

The Chairman. Don't you remember that was your policy?

Mr. Brown. Well, we had a contract with Pan American, and we were trying very hard to help them get enough revenue so they could return postage to us and make the company self-sustaining. It seemed as though one company with a contract was enough for us to support at that time. We had a contract with Pan-American; we were interested in their making good under the contract. I don't know whether this Latin American company was a United States company, or whether it was not; but I do know that whatever we did in the matter we did with a view to making Pan-American self-sustaining so the burden on our Government would be very small, so the postage would be sufficient to pay the \$2.

The Chairman. Returning to the question, the question that I would like to ask you is if you remember—and I assume you would remember your general policy—

Mr. Brown. I think I told you no.

The Chairman. I did not understand you to say no.

Mr. Brown. I don't remember any such letters.

The Chairman. I did not ask you about the letter. I asked you if you did not remember it was your policy as expressed to the State Department, the policy under which you acted for several years, that the Post Office Department asked the State Department to give a preference to the Pan American over all other companies, foreign or American, in South American territory. Was not that the acknowledged and accepted policy of the Post Office Department?

[fol. 3701] Mr. Brown. Well, perhaps it was. I would not dignify it with the term "policy", but that is the practice we certainly followed on several occasions.

The Chairman. Do you remember when another American company started to establish a line on the west coast of South America?

Mr. Brown. No; I don't—unless you mean at the time that Mr. New awarded the contract to Pan American.

The Chairman. Do you remember whether or not the State Department at first declined to render diplomatic assistance to Pan American in preference to other companies, American companies?

Mr. Brown. I have no recollection of that whatever.

The Chairman. I will ask you to look at the last paragraph of this letter on pages 2 and 3, from the State Department—give the date, and the one to whom it is addressed.

Mr. Brown. This letter is addressed to the Postmaster General, June 21, 1928. The Postmaster General at that time was Mr. New. I do not know anything about the whole matter.

The Chairman. I want to see what they said their policy was.

Mr. Brown. I don't know whether that is an "S" or not. I think that is a "9".

The Chairman. I think that is "9".

Mr. Brown. I think that is "9", but it is a very bad "9". You want me to read something on the second page?

The Chairman. The last paragraph, if you desire. If you look over it, it might be you would want to read it all.

Mr. Brown (reading):

This Department is very reluctant

I think perhaps we had better read the whole letter. (Reading)

[fol. 3702]

June 21, 1929.

The Honorable the Postmaster General.

Sir: With further reference to your letter of June 7, 1929, regarding the policy to be followed in rendering diplomatic assistance to American companies seek-

ing concessions for the establishment of air mail services in Latin American countries, I have the honor to request an expression of your views regarding the situation which has arisen in Guatemala and El Salvador because of the competition there between two rival American companies.

Both the Pan American Airways and the Latin American Airways, which is understood to be a corporation financed on the Pacific coast of the United States, have been endeavoring to obtain concessions for the extension through Guatemala into El Salvador of the routes which they propose to establish from the American border through Mexico to the Guatemalan frontier. Their competition, both in Guatemala and El Salvador, has been of such a nature as to make it possible that no American company will obtain the desired privileges, and their activities have, therefore, been a source of concern both to this Department and to its representatives abroad. The problem of extending diplomatic support to the companies concerned has been made difficult not only by their rivalry between themselves, but by the fact that both propose to operate through companies incorporated in Mexico. It has not been the practice of this Department to extend assistance in obtaining business to foreign corporations, even though their stock is controlled by American interests.

The American Minister at Guatemala City recently reported that he had succeeded in persuading the two companies to abandon their activities against one another upon the understanding that the Pan American Airways would seek permission to extend its Miami-Cristobal service to Guatemala and El Salvador, while the Latin American Airways would seek permission to establish a service from the Mexican frontier to Guatemala City. It appears, however, that the Pan American Airways subsequently refused to abide by this agreement on the ground that your Department had "ordered" the company to extend its present Browns-

ville-Mexico City route to Guatemala. The situation with regard to assisting the two companies diplomatically is, therefore, still a difficult one.

This Department is very reluctant to extend diplomatic assistance to one American company against the other, particularly where the interests of different sections of the United States appear to be involved, as in the present case where one company appears to be endeavoring to establish a route from the western part of the United States into Central America, and the other from Texas. It would be unfortunate on the [fol. 3703] other hand if the rivalry between the two companies resulted in the failure of either to obtain permission to enter Guatemala and El Salvador. In this connection information regarding the views of your Department with respect to air mail service in the countries referred to would be very helpful.

I have the honor to be, sir,

Your obedient servant,

Henry L. Stimson.

For the Secretary of State.

The Chairman. May I ask if it is not true, and if you do not recall, that in every single instance where a contract has been sought by the Pan American during your administration, and the same contract was sought by others, that your Department has requested the State Department, and has taken the position that you desired that the assistance be rendered to the Pan American Co.?

Mr. Brown. Well, no contracts were ever awarded by me to the Pan American Co. except two, I think. The matters referred to in these letters are concessions in these cities. The contract let or awarded on the 2d of March 1929, just before I came to the Post Office, provided for extensions of service under the terms of those contracts into all these cities in Central and South America. Now, when it was time to start the service, of course, an American company could not fly into those countries without the

permission of the Government, and the right way to deal with the Government, as we all know, is through our own Government, through the State Department. So we were interested in the Post Office Department in seeing our contractor who was carrying our mail under our contract would have the concessions necessary to make him live up to the contract. I was not asking the State Department to give Pan American any contracts.

The Chairman. I will change the question. Is it not true that during your entire administration when there came [fol. 3704] up a question as to whether the Pan American Co. would get a concession in South America, or some other company would get a concession in South America, that you asked the State Department to intervene through its ambassadors and consuls in favor of the concession to the Pan American Co.?

Mr. Brown. I don't know as to that, but I know that I did on several occasions.

The Chairman. Is it not also true in several occasions where the parliaments of the country had unanimously voted against the concessions being granted to Pan American, that you asked the State Department to assist the Pan American in obtaining the concessions?

Mr. Brown. I have to answer that in the negative, because I never heard that the parliaments did object.

The Chairman. You never heard there were any objections among the members of the parliaments or law-making bodies?

Mr. Brown. No; I never did.

pp. 2465-2466:

The Chairman. Did you know after these objections had come from not only these countries, but many others, that the State Department—

Mr. Brown. Please tell us what "these companies" mean.

The Chairman. This company, Pan American—these countries I have just asked you about—that the State Department continued to send messages in favor of the Pan American to Panama, Honduras, Guatemala, El Salvador,

Chile, Bolivia, Peru, Colombia, Venezuela, Ecuador, and Brazil?

[fol. 3705] Mr. Brown. I didn't know that, but I think the State Department finally reached the conclusion the United States Government was in partnership with the Pan American in a mail service to South America in which they took the mail from our country down and brought the mail from the other countries back, and they are very anxious to get a complete service and justify the expenditure, and I suppose the State Department did just what I did, tried to make a success of it.

The Chairman. Don't you know the State Department's attitude was based on answers to specific inquiries from them to you as to what their policy should be from time to time with reference to these concessions?

Mr. Brown. I think when we started—some of it comes back to my mind now—when we started the conversations with the State Department, they were not aware that we had a contract, had made a contract with Pan American for this service, and they thought they were asked to choose between two companies that were on the same footing, but when they finally reached the conclusion the Government itself had an interest in Pan American, then I think they exerted themselves in every proper way.

The Chairman. Do you not know in some instances the other American companies had started out first, in South America?

Mr. Brown. It did not make any difference about that; because they did not have any contracts with our country.

The Chairman. They could have gotten them, could they not?

Mr. Brown. They did not get them. There was one contract let, and only one, in South America, except that small contract down to San Quas, and subsequently extended to Montevideo.

[fol. 3706] The Chairman. Do you remember the Tri-Motor Safety Airways case in which they had a contract in South America?

Mr. Brown. No; I don't. They did not have any contract with the United States Post Office Department.

The Chairman. They could not get any, could they?

Mr. Brown. I do not know whether they were in existence when the Pan American contract was awarded or not.

The Chairman. Did you know that in compliance with the request of the Post Office Department, and the policy the State Department set in a document no. 81679611-17:

That we would be justified in informing our lines in Argentine, Brazil, Chile, and Venezuela that Pan American Airways as an American concern, is entitled to all proper diplomatic assistance, but no assistance should be rendered to Tri-Motor Co. because of the probability such an assistance would be helpful to foreign as against American interests.

Mr. Brown. Would be helpful to foreign?

The Chairman. Yes; do you remember the Tri-Motor Co. at all?

Mr. Brown. No; I don't, but I would think if Mr. Stimson thought another company was working in the interests of some foreign organization, that he would be entirely within his rights in doing what he could to circumvent it.

The Chairman. Did you know that only a few months previous to this action by the Department that it had instructed the Embassy in Paris to support the Pan American Airways in negotiations looking to the establishment of air service in Latin America, then pending with the French interests, Leltonera, the same company whose alleged arrangement with the competitor of Pan American was shortly thereafter deemed sufficiently threatening to offer certain support—with still other companies competing with Pan American?

Mr. Brown. I didn't know about that. There was quite a bit of competition between our company and the German [fol. 3707] and French companies. They were all trying to get a footing, and our State Department was supporting the American company.

The Chairman. The evidence in the State Department shows the Tri-Motor was an American company.

Mr. Brown. I cannot help you with the Tri-Motors, for I don't know anything about it.

pp. 2639-2641:

Senator Austin. I would like to ask you something about Pan-American. Your attention was called to the question of whether preference was shown to Pan-American as against other American companies in respect to the carriage of foreign mail. I would like to ask you what would have been the effect on the Government's return from the Pan American's operations in South America if a competing American company had entered the field there and received the United States mail contract?

Mr. Brown. Well, if I get the drift of it, perhaps I can explain it with a little time. The Pan American contract, which was let before my time, awarded before my time, provided for the carrying of mails from the United States to South American countries, and the carrying of the mails back to the United States from South American countries. The Post Office Department fixed the rates, the postage rates, for outbound air mail destined to South American countries—that is, the postage that nationals in our country would have to put on letters that were being dispatched to South American countries. Under the terms of the contract, Pan-American was to get \$2 a mile each way, and any postage that they got on the return trip from South America for bringing letters to our country from South American countries was to belong to the United States, and to be credited on what we owed them.

The Department, as I say, fixed the postage outbound from the United States to these other countries, and required that Pan-American collect from the same countries the same rate on north-bound, or United States-bound mail—that is to say, the rate that we fixed in moving mail from our country to South American countries. Pan-American was obliged to get from these countries in dispatching mail to us. Now, if another company had gone into that field down there and taken a contract to move the mails from South America to the United States, and agreed to pay him at a lower rate than the rate we had fixed up here for carrying the mails south-bound, which necessarily was the rates Pan-American had to collect, at once those countries would have said, "Here, we are not going to pay

Pan-American more than we have to pay any other company" and the matter would have had a complication which was a very serious one, and would at once have reduced the amount of postage the United States would have got for moving that mail to our country, and the United States was really in partnership with Pan-American, because we pay \$2 a mile outbound and inbound and get all the revenues both ways to apply on it, and the more revenue we can get, the quicker the whole operation will be self-sustaining; and so for that reason the Post Office Department was anxious to get concessions for Pan-American in the Central and South American countries, to swell that revenue that all applied on the contribution the United States Government was making to this operation.

Does that make it clear?

Senator Austin. Yes, sir. I am going to ask you, however, a hypothetical question, which I think is very near the facts. Assume that an American company, known as Nyrba, procured concessions from Argentina, Uruguay and Brazil to carry mails from those countries to the United States for rates of \$10 per pound downward, what would have been the effect on the financial return to the United [Vol. 3709] States from South American mails if Nyrba Company with those contracts had been incorporated in our foreign mail operations?

Mr. Brown. Well, the average charge that the Post Office Department made for outbound mail to South American countries was about \$25 a pound, what was collected, and that was the amount that Pan American had to pay the Post Office Department for any mail it moved to our country originating in those South American countries.

Now, if any other company had taken the north-bound mail at a lower price, the natural thing that would happen would be that Pan American would get no north-bound mail, at least unless they met the price, and if they met the price, our Government would not get it—that is all; and if we did not get the mail at all we would not get the revenue.

Senator Austin. In net cash, it would mean this, does it not, that the whole north-bound revenue would come out of the United States in an assumed case like that?

Mr. Brown. Yes, sir. ✓

Senator Austin. And it would therefore be against the public interest, would it not?

Mr. Brown. Exactly.

Senator Austin. Now, then, as a matter of judgment for this committee to pass upon, and perhaps recommend to the United States Senate, in your opinion, should we recommend any other practice than to support our partner in that carriage of foreign mails?

Mr. Brown. No; I think it is the only thing that has any common sense at all.

[fol. 3710]

PAN AMERICAN WORLD AIRWAYS, INC. EXHIBIT 419

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

Docket No. 2423

In the Matter of

PAN AMERICAN-PANAGRA AGREEMENT

Room 5012, Commerce Building
Washington, D. C.
Thursday, December 19, 1946

The above entitled matter came on for argument before the Board at 10 a.m., pursuant to notice.

BEFORE:

JAMES M. LAMBS, Chairman
OSWALD RYAN, Vice Chairman
HARLEE BRANCH, Member
JOSE LEE, Member.

APPEARANCES:

HENRY J. FRIENDLY, 135 East 42nd Street, New York,
New York, and

FOWLER HAMILTON, Southern Building, Washington, D. C. on behalf of Pan American Airways, Inc., 135 East 42nd Street, New York, New York.

GERHARD A. GESELL, 701 Union Trust Building, Washington, D. C., on behalf of Panagra.

E. SMYTHE GAMBRELL and W. GLEN HARLAN, 825 C&S Bank Building, Atlanta, Georgia, on behalf of Eastern Air Lines.

WILBUR LA ROE, JR., 743 Investment Building, Washington, D. C., on behalf of Port of New York Authority, 111 Eighth Avenue, New York 11, N. Y.

EDW. D. RAPIER, 1025 Whitney Building, New Orleans 12, La., on behalf of Orleans Airport Commission, New Orleans, Louisiana.

L. L. HIGHSAW, JR., Public Counsel.

HUBERT A. SCHNEIDER, 815—15th Street, Washington, D. C., on behalf of Braniff Airways.

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[fol. 3711] Mr. LaRoe: Mr. La Roe.

Mr. Chairman, counsel have agreed if it meets with your convenience to let me go ahead of Braniff, since I favor the principle of through routes and uninterrupted service.

Chairman Landis: Public Counsel?

Mr. Highsaw: Mr. Highsaw.

Chairman Landis: 45 minutes.

I guess we are ready to proceed.

ARGUMENT OF HENRY J. FRIENDLY, PAN AMERICAN AIRWAYS, INC.

Mr. Friendly: I plan, Mr. Chairman, to use about 35 minutes.

I would appreciate a warning at 20. It is with something more than ordinary pleasure that we are here today to place before the Board the Through Flight Agreement between Pan American Airways and Panagra.

We think this agreement is constructive in the highest sense. Constructive because it eliminates a barrier to the free flow of air travel between the United States and seven

great nations of South America, because it provides better air service to people who are now air travelers, and by so doing will make more air travelers. Constructive also because it does all this without unwarranted duplication of facilities or schedules. And constructive finally because it represents a solution of a problem which has been of deep concern to the Board and, I assure you, also to the parties, for many years.

Let me outline the division of labor for today's argu-

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[fol. 3712] ment between Mr. Gesell and myself. My argument will be devoted entirely to the agreement which is sometimes called Agreement "A" between Pan American Airways, Inc. and Panagra, and as to that agreement I shall deal primarily with what might be termed general public interest considerations.

Mr. Gesell will discuss certain features of that agreement relating to problems that are peculiarly Panagra problems. He will argue the legal question as to whether this involves Panagra's performing air transportation north of the Canal Zone and will cover all questions relating to Agreement B between the two parent companies.

First, a statement, necessarily brief, of what the agreement provides.

The basic principle of the agreement is that Pan American as requested by Panagra, will charter aircraft which Panagra operates into Balboa from Lima or points farther South, for through operation from the Canal Zone over one of Pan American's routes to the Continental United States.

The aircraft are to be operated by Panagra's flight crews.

Pan American will pay Panagra a charter hire consisting of the direct flight expenses, an allocated amount, which we estimate to be about \$13,000 a year at the outset, representing such portion of Panagra's indirect expenses as are directly related to the services performed, and a reasonable return on Panagra's investment in the aircraft used.

The initial route over which these flights are to be operated, is Pan American's certificated route between the

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[fol. 3713] Canal Zone and Miami. However, if and when

the Board permits a straightening out of our route to New Orleans, in accordance with an application which we already have on file, Panagra may request that through flights be operated also over that route.

Now, the agreement also takes account of Pan American's pending domestic route application. It provides that if the Board grants Pan American the route from Miami along the East Coast, flights under the agreement may proceed to Washington and New York, the two points that are of primary importance for Panagra traffic, and likewise from Miami to Chicago.

There are also provisions that, subject to suitable certification and subject to the existence of sufficient traffic, stops might be made at Philadelphia and Boston, and that the agreement might ultimately be applied to the operation, if it is authorized, between New Orleans and Chicago.

Now, the through flights provided for in this agreement are not simply to be superimposed upon service which Pan American is offering and its certificated routes. Rather, they are to be an integral part of Pan American's service.

Not only will all revenues and expenses on these flights North of the Canal be for Pan American's account exactly as with flights performed by Pan American's own aircraft, these flights will be available for and used by local as well as through passengers and that is an important point.

Panagra's traffic to or from the Canal splits at that point. About 60 per cent of it goes to the Miami gateway, the rest

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[fol. 3714] to the Western gateway.

Now, that means that, to maintain a satisfactory load factor on through flights that are operated even to Miami, which is the heaviest gateway, it is important that Panagra be able to draw—or that these flights rather, be able to draw—on local Balboa-Miami traffic.

Now, it is true that the through flights are to be scheduled primarily for the convenience of the through traffic, and that the agreement provides for reasonable space assignments to prevent them from being blocked by local traffic—something, I may say, which the intervenors seek to make

appear very wicked indeed, although of course it is every day practice for every airline and for that matter, on every airline in the United States.

However, these flights will receive substantial support from local passengers.

The agreement thus permits Panagra's traffic to reach the United States on Panagra's aircraft operated with Panagra's crews, but with the flights north of the Canal an integrated part of Pan American's already certificated operations.

It provides also practical measures for enabling that Panagra traffic to be effectively sold.

Pan American is to continue as general sales agent for Panagra, as it has been ever since the two companies started. The advantages of such an arrangement seem to me to be obvious.

Panagra by itself could never afford sales offices and an organization for dealing with travel agents throughout the

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[fol. 3715]. United States, of anything like the same extent as Pan American's.

However, the agreement recognizes Panagra's separate identity and makes detailed provision for its development from a traffic and sales standpoint.

At all airports in the United States to which Panagra's aircraft may be operated under this agreement, its name is to be displayed, and if it desires a reasonable number of its own traffic and Panagra service employees may be stationed.

Pan American also agrees that at its more important city sales offices it will designate a particular Pan American employee who is to be specially charged with promoting the sale of Panagra traffic.

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[fol. 3716] In short, we have tried to set this agreement up from a traffic and sales standpoint in a way in which Panagra will receive the benefit of Pan American's sales effort exactly as it would if it were any other part of Pan American's operation, except that Panagra's individuality, corporate and otherwise, is to be fully preserved.

Now, I am going to leave to Mr. Gesell to outline to you the provisions of the agreement relating to maintenance and training. We made this agreement for 99 years. We did that, not because that term has any particular magic, but because it is symbolic of an agreement intended to be permanent and while we intend to bind ourselves, we of course had no intention of similarly binding the Board. We drew the agreement knowing full well that it required approval under section 412 and that such approval could be withdrawn at any time if experience under the agreement or other factors made it appear adverse to the public interest.

Now that, of course, is the barest outline of a contract some 24 printed pages long. I was a little pained at the statement in public counsel's brief that this contract to which Mr. Gesell and I had devoted nearly two months of intensive work, "was drawn in a great hurry", and in general was a pretty sloppy performance.

If there are defects in the text, I can assure the Board that they are the result of personal inadequacy on the part of the draftsman and that they don't come from lack of time or application by the party.

If the criticism is simply that in an agreement intended to last for a long time, we didn't intend to dot every "i" and

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[fol. 3717] another petition will have to be filed and the formality of another hearing had.

Now, let's look at the approach that must be made to this case. Under either 412 or 408, it is altogether different from that in a certificate case. Before the Board may disapprove this agreement, it must be shown that it is contrary to the public interest but the difference is not merely one of burden of proof.

Here, the parties already have the franchise to carry the traffic to which this agreement relates. Therefore, we do not have such questions as possible burdens on the treasury for additional mail pay, or even for that matter, of competitive effect upon other carriers, unless, of course, the situa-

tion calls into play the monopoly provisions of 408 43, a suggestion which is made here only by Eastern, and which I don't think even warrants reply.

The bundle of rights in a certificate, a tortion, whatever there is in a certification application, does not include a right to prevent improvements in the service of carriers already certificated. You made that very clear in your opinion in the United Western case. This through flight agreement serves the public interest, first and foremost by doing just what it says, namely, permitting through flights.

That is a statement of fact that is simple and plain and easily understood and yet unless it is sufficiently emphasized it becomes lost in the fog that is generated by the intervenors, who by building up small incidents to tremendous proportions, seek to obscure the simple fact that it is a very good thing not to route passengers out of here at

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(fol. 3718) Balboa in the middle of the night. It is for the purpose of serving those passengers. The American Tourist going to Quito. The Chilean business man enroute to New Orleans, the Peruvian delegate to the U.N. in New York, that this company has spent the millions of dollars that it has in developing air service and that this Board was called into exist.

It is for those people, not Braniff, Eastern, or for that matter, Pan American or Panagra, that all that was done. The record here shows that during the first half of 1946, nearly 7500 passengers traveled between the United States and points on Panagra's route south of Balboa. Sixty per cent of those, or about 25 a day, passed through the Miami gateway. That number, of course, will increase. It has got to increase tremendously to support the new American flag and foreign flag competition which lie ahead.

Yet at present, every one of those Panagra passengers has to change planes at Balboa. And as connecting services have been in the past as compared with one plane service, they will be relatively worse in the future. With the speed of the DC6, for example, the additional hour required for a connection at Balboa over and above the stop that would have to be made on a through flight, is the equivalent of a

quarter of the flight time from Balboa to Miami, and sleeper planes introduce a still further problem.

The exhibits here show that suitable afternoon departures, either from New York or Buenos Aires, will put schedules through Balboa in the early morning. A rather exact parallel, in every day experience, to this requirement of a Balboa transfer on a DC6 flight between New York and

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[fol. 3719] Buenos Aires, would be if all rail passengers between New York and Florida were required to get out of their berths at Richmond. We passed that long ago in our rail service. And yet, everything I have said up to this point leaves out the worst feature of a connecting service, namely, the danger of a missed connection. The relative infrequency of the schedules into and out of Balboa, as compared with those at important junction points within the United States, makes the consequences of such a missed connection peculiarly severe, and the length of the route on either side of Balboa accentuates the risk of such a miss.

I think it is fair to ask just what there is in this agreement so contrary to the public interest that you gentlemen should require a load of passengers to be dumped out at Balboa 365 nights a year, and on some of those nights find their connections missed.

I suggest that the burden of persuasion which that simple fact places on the intervenors—and I include public counsel there—is a very considerable one, particularly considerable when we consider that section 2 of the Act places upon you a mandate to coordinate transportation between air carriers—a mandate, incidentally, of precisely the same dignity as the often referred to phrase in that section about competition. I suggest that that burden of persuasion is not met by such generalities as talk about undesirable patterns of interchange and the like.

The public simply should not be asked to tolerate the inconvenience of this transfer, and they don't have to tolerate it. South American travelers originating in, or destined to, the portions of the United States served by Braniff,

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[fol. 3720] will use that carrier's service. Passengers to New York can use the services of Braniff and National

connecting at Havana which will involve only one change of plane as compared with the two now required for Panagra and Pan American, and, I think it is only a question of time—or should, I say, rather, of timing—before Braniff and National will make arrangements to eliminate even that.

Moreover, those are by no means the only choices which a traveler will have. While this country has undoubtedly the power to shackle its service between the west coast of South America and Eastern United States, by requiring one change of plane at Balboa and another at Miami, it can not force others to do the same. The Bermuda agreement provides for British service from New York to Santiago once the British are already operating at Buenos Aires. I don't think you gentlemen have any doubts that there will be an Argentine company operating up the west coast directly between the traffic centers in the northeastern United States.

There is the Peruvian company which General George is now heading, in all likelihood a Chilean company, there are two Colombian companies already authorized to operate into Miami. One of them goes as far as Ecuador and the other as far as Peru already, and then can extend. No one can seriously believe, I think, that a New York business man going to Santiago will have very much difficulty in choosing between a through sleeper service on BOAC, for example, and a three-plane service on Eastern, Pan American and Panagra.

We ought also to beware of the fallacy that comes from thinking only in terms of United States citizens going to

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[fol. 3721] South America. A large amount of the traffic on this route consists of South Americans coming to the United States. United States carriers are going to have a hard enough time competing for the patronage of those people against their own national flag airlines and we ought not to make that task harder unless we are serving some real and substantial public purpose by so doing.

Before I pass to other matters, I want to dwell on one thing which I mentioned previously, namely, that this agreement represents a voluntary solution of a troublesome prob-

lem. I can assure you that the last thing that I have in mind doing today is to debate the pros and cons of the so-called Panagra extension controversy, now happily resolved if you approve this agreement, but I think in view of some of the arguments that will be made, you ought to realize that that disagreement reflects a sincere and honest difference of opinion, both as to what Panagra was intended to be and as to what, in its own best interests, it ought to be.

Pan American did not participate in creating Panagra in 1929 simply to make an investment. It conceived Panagra rather as an extension of its already authorized line from Florida to the Canal, and we consider that original intention to be still the best and soundest intention, not only for Pan American but for Panagra also.

We believe that Panagra owes a great deal of its success to the fact that it has been a part of the Pan American Airways system just as it owes another part to the contributions that have been made by W. R. Grace and Company. To place Panagra in paralleling point to point competition

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[fol. 3722] with Pan American between the Canal Zone and the United States would have meant a complete and violent change in that relationship, and in our judgment would have seriously impaired the value of our stockholders' investment in Panagra itself. I am not asking you to say that those views are right, although I happen to think they were. I do think it important for you to know that this record shows them to be the views not of one man but of Pan American's entire Board of Directors—views unanimously adhered to after long discussion and after the opposite point of view had been fully and ably presented to the individual Directors by our friends in W. R. Grace and Company, and that holding those views as we do, we feel bound by fiduciary duty to our stockholders to maintain them to the limit of our ability in every proper way.

Any voluntary adjustment of this controversy had to take account of this fundamental view of Pan American's, just as it had to take account of Grace's equally fundamental view, that Panagra's traffic must have direct access to the United States in Panagra's planes operated by Panagra's crews. One of the virtues of the agreement, as I see it,

is that while of course it contains certain concessions, as any such agreement must do, it does not—and indeed it could not—have reaped abandonment by either of the parties of any principle which either of them regarded as fundamental. It is because the agreement meets the fundamental views of both parties that we are so certain that it is a good agreement and a workable agreement. That is why we are so sure that it is so much better than any solution, whatever it might be, imposed as a result of continued litigation and yielded to only as a matter of compulsion.

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[fol. 3723] Now, in the time that remains, let me turn to some of the arguments that will be made against this agreement.

First, it will be claimed that the agreement eliminates competition between Pan American and Panagra. The agreement simply does nothing of the sort. The only competition which has ever existed between Pan American and Panagra is for traffic between the northeastern part of the United States and the two common points of Buenos Aires and Montevideo. The routing is generally controlled by the travelers plan for intermediate stops.

Many passengers wish to go down one coast and up the other, and the traveler whose sole objective is to get to Buenos Aires without intermediate stop as rapidly as possible is a fairly rare bird.

The traffic that is truly competitive is certainly less than five per cent of Panagra's revenue, and, of course, is a very much smaller proportion of Pan American's. The agreement in no way adversely affects Panagra's position to compete with Pan American for that traffic. On the contrary, it very much improves it.

At the moment, Panagra is in a poor position to compete with Pan American for this Buenos Aires traffic or to compete with anyone else's for it. This agreement assists Panagra by eliminating one of the two changes of plane now required, by bringing Panagra's planes into Miami, and as we hope, ultimately to New York, as well as by the traffic and sales provisions which I have mentioned. At this point I should deal with one provision in the agreement to which I did not refer in my initial outline. That is section 13 A,

[fol. 3724] where the parties recorded their intention that at some reasonable time after the agreement had been working, they would sit down and consider a pooling agreement with respect to traffic to these two common points of Buenos Aires and Montevideo. There is no certainty that any agreement of that sort will ever be made, still less certainty as to what its terms and conditions will be, and, of course, any such agreement would be subject to further approval by the Board.

Far from there being anything sinister about that provision it was inserted rather as a matter of full disclosure, with the thought that if such an agreement were later to be made and submitted, we would not want the Board to feel that there had been any lack of candor about our intentions at the present time.

We have assumed, of course, that the Board's order will leave no room for doubt that it is not now approving even the principle of pooling, and if that is not enough, the Board can disapprove this particular provision without the slightest effect upon anything else in the agreement.

Chairman Landis: Your thirty minutes has passed.

Mr. Friendly: Thank you.

Now, let me turn to what I think is the real argument on the subject of competition, and that is that the agreement terminates the litigation which might have made Panagra a parallel competitor of Pan American on this sector between the Canal Zone and the United States. That, of course, is a sector where Panagra never has competed with Pan American. It is a sector where any possibility of Pan-

[fol. 3725] agra's competing with Pan American rests entirely upon conjecture as to the outcome of litigation which is still a long way from being concluded.

There is not a shred of evidence in this record that additional competition for Pan American between the Eastern United States and the Canal is required. We have already been given American flag competition by the connection between Nation and Braniff at Havana, a service which has as yet even to be begun, and if it be said that National's and Braniff's is a two-carrier service, what is Pan American's

service at the present time from any city except Miami itself, and the traffic we all know doesn't come from Miami.

Moreover, this sector of the Caribbean will be traversed by every foreign airline operating between the Eastern United States and west and South America, British, Argentine, Chilean, Peruvian, and Colombian.

Yet, the traffic on which all those operations must depend—and I am including the local traffic now as well as the thru traffic—amounted during the first six months of 1946, to about enough to sustain one flight a day with a four-engine airplane, and that is more than the Crozier figure to which you referred in your opinion in the Latin American case.

Of course, that volume will grow, but it will have to grow a good deal to provide reasonable loads for the eight airlines already indicated more than there are on any route within the United States, not to speak of the steamships which were not operating in the first half of 1946, but will be some time in 1947.

To my mind, this whole idea that Panagra must be required in the public interest to compete with Pan American

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[fol. 3726] on the sector between the Canal Zone and the United States, is simply a throw back to a condition that may have existed in 1942, when you instituted docket 779 but the basis for which has now completely disappeared.

I think it is no secret that in 1942 many people in the government and outside the government believed that the most desirable pattern of American flag air service in Latin America would be obtained by utilizing Panagra as a vehicle for competition with Pan American, and, of course, such a pattern would obviously have required something more than the certification of Panagra to the continental United States. But since that time, an entirely different plan has been provided. It has been provided by the certification of no less than seven competing American flag lines and particularly by the extension of Braniff to almost all important traffic points on either coast of South America, and superimposed upon that is a volume of foreign competition, particularly by the Latin American nations, which

certainly was never anticipated in 1942, or for that matter, as I believe, in 1945.

Yet, with more carriers indicated for operation between the Canal Zone and Miami than there are between New York and Chicago, the intervenors continue to mouth this cry of monopoly, and to urge that Panagra be forced to compete with Pan American, and that this constructive solution which the parties have arrived at, should be rejected by you in order that they may be forced to compete with each other on a sector where there is no showing that there is even traffic to support the competition much less to require it.

Thank you

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[fol. 3727]

ARGUMENT OF GERHARD A. GESELL PANAGRA

Mr. Gesell: I would also like notice after thirty minutes, Mr. Chairman.

I appear here, of course, for Panagra. Panagra most earnestly asks the Board to approve the through flight agreement, and make it immediately effective in order that Panagra's traffic may have the benefit of direct one plane service between the East Coast of the United States and the West Coast of South America—something that has been long awaited and very much needed in Panagra's whole picture.

I concur in the arguments that Mr. Friendly has made about the question of the public interest, and I am going to try to be very careful not to cover the same ground.

I do think there are certain features of this agreement which have to be examined from the point of view of Panagra, and I would like to call attention to those at the outset before I turn to a discussion of some of the legal points which have been raised by Public Counsel and intervenors, and some of the specific arguments.

The Board has recognized, in its opinions, that while, of course, it is concerned primarily with broad considerations of National policy in carrying out the objectives of the Act, there are situations that arise where the strengthening of an individual carrier is required for the sound development of the national system of which that carrier is a part. This is such a case.

We think the Board will want to consider most carefully the extent to which this through flight agreement will pro-

[fol. 3728] mote the economy and efficiency of Panagra's operations, and enable it to continue what we believe has been a significant role in the development of American air transportation in Latin America.

There has been so much talk about this question of passenger inconvenience at the Canal Zone that I want to emphasize a somewhat different feature of the through flight problem.

It is perfectly clear that the inconvenience to traffic at the Canal Zone is enormous in terms of expense, in terms of time, in terms of delay, but I think you have to look at Panagra's picture a little more broadly than just that question.

Panagra is going through a transformation, a transformation which I think is greater and more fundamental in its operations than any other certificated carrier, whether it be a domestic carrier or a foreign carrier.

Panagra developed its system in terms of being not only a through trunk international carrier, but by developing feeder routes, off-line routes, in an international service.

You know it has extensive services in Ecuador, extensive services in Bolivia, extensive services in the Argentine and Peru, and that a very substantial amount of its traffic is traffic carried between various Latin American countries.

I am sure the Board recognizes what is happening to that traffic.

Cabotage rights, which Panagra has enjoyed are diminishing. They were cancelled the other day in the Argentine

[fol. 3729] effective January 1. That represents a substantial reduction in Panagra's revenues.

It may require us to come here and consider with the Board the discontinuance of the diagonal route. It is also clear that the bilateral air agreements that are being negotiated are affecting Panagra's traffic picture.

Mr. Mitchel on his current traffic mission is proposing bilateral agreements of which the Board is fully aware. The effect of those upon Panagra's inter-South American country traffic is difficult to estimate now but it is certainly going to have an effect and we think it is going to be a diminishing effect as far as the traffic is concerned.

That means that Panagra's future, Panagra's growth, Panagra's development, is dependent upon its ability to serve the through traffic between the United States and South America.

That traffic already accounts for 51 per cent of Panagra's revenue, but it is going to account for a substantially greater amount. The development of the tourist traffic, and of course the diminishing of the other traffic, are all going to put the through traffic into a very dominant position.

Now, Panagra must be in a position to attract that traffic. If Panagra cannot attract that traffic it will go to competitors. Panagra doesn't want it all. Panagra wants its share. It can't compete with the one plane direct service of Braniff, touching the lucrative points and skipping all the difficult operating points, the difficult traffic points, and

[fol. 3730] it can't compete with these many foreign competitors who are coming.

Public Counsel, to my amazement, says that the foreign competition is speculative, and he seems to suggest that Panagra should sit still, patiently await that competition to develop, and then come in and talk to the Board.

We must anticipate it and it is only by anticipating that we are going to keep ourselves in a position to hold the important role we have had.

Chairman Landis: It would be difficult, wouldn't it, to think of Panagra's international route pattern as fitting in with the general route patterns being negotiated by countries including the United States and bilaterally?

Mr. Gosell: I think so, Mr. Landis. I think it is more than difficult. I think it is almost impossible as it is now

set up. Six points, I think you serve in Bolivia, if I am not mistaken. Probably more than that.

Chairman Landis: Probably more, and negotiate for perhaps eight to 10 points in Peru.

Mr. Gesell: Probably four or five or six in Peru and maybe eight or ten in Ecuador and six or seven in Argentina.

Chairman Landis: It is hard to think of those points as points for the development of international traffic. Local traffic, yes.

Mr. Gesell: Panagra's conception, of course, Mr. Landis, was that the proper way to develop an international service was to have way-to-way traffic which would promote adequate frequencies, promote strong equipment, but it is true

(ed. 3731) that that conception is not consistent with the bilateral air agreement approach which is being negotiated by this government now, and that is why I say the through flight agreement is so important.

Chairman Landis: In order to observe a through pattern of that nature, the United States' position would have to be, broadly speaking, that of insisting upon cabotage, the grant of cabotage from other nations, also a completely unrestricted fifth freedom, a position which, if it were being demanded of the United States reciprocally, I am afraid, would not find much favor.

Mr. Gesell: I am sure the chairman understands that I am not criticizing the policy. I am pointing out its effect upon Panagra which I say is more debilitating and more significant than upon any other American flag carrier.

I am not criticizing the policy at all and I think we would get into a discussion quite beyond this agreement.

Chairman Landis: I am not criticizing it, myself, but simply trying to gauge the kind of position that the United States will have to take with reference to world affairs, world air affairs, if it were going to redeem Panagra's route pattern.

Mr. Gesell: It would certainly have to retrace many of the steps already permanently taken, it seems to me, but that established, it also seems to me, the deep effect of what is happening upon Panagra.

The point, of course, is not that we must have a route pattern which is consistent with the bilateral and international agreements but that we must have a route consis-

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[fol. 3732] tent with those agreements which will enable us to attract traffic, and this through flight agreement, in the opinion of Panagra, places us in such a position.

Now, we not only obtain, through the through flight agreement, a direct one plane service between points in the United States and points on Panagra's route—something which I think the Board in the Latin American decision recognized was desirable in the overall pattern, but we obtain under this agreement rights and opportunities efficiently to develop that through traffic.

I am not talking alone about sales which, of course, is important to the efficient operation of through flights under a cooperative arrangement such as this.

Mr. Friendly has talked about that.

I would like to talk about the maintenance and training provisions of the contract for a moment. Let's take maintenance.

Panagra has, as the Board is aware, taken commitments not only to take on DC-6 sleeper aircraft, very promptly on the delivery schedule, but it has also equipped itself with DC-4 aircraft.

Those aircraft are large complex multi-motored equipment, as the Board realizes—something quite different from the DC-3.

For Panagra to maintain those planes in South America, at its shops at Lima, or at some other point on its route, would require it in the first place to expand its facilities—an expenditure involving over a half million dollars—it would be required to employ some 300 additional mechan-

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[fol. 3733] ics, and it would be confronted with a tremendous organizational and management problem on top of its present route and traffic problems.

Chairman Landis: Wouldn't the CAA also have to establish some inspection service in Lima if you established your shops down there?

Mr. Gesell: We have our shops down there and it has such a thing now, but I am talking that this must be expanded and changed. The machinery and equipment for the larger planes is quite different.

Panagra has also, although it hasn't been able to maintain its equipment well and up to CAA standards outside the United States. Panagra's costs have been tremendously high, because of maintenance away from the United States.

Mr. Lee: Higher than they would be in the United States?

Mr. Gesell: Very appreciably higher, Mr. Lee. The reasons for that are set forth, and unchallenged on this record. I will briefly review them to point out the problem.

Panagra must maintain much larger inventories. The cost of its equipment and material is much greater due to the transportation. It is perfectly true that national labor in those countries is less expensive than national labor here, but the per hour productivity of that labor, no matter how carefully trained, no matter how carefully supervised, is nothing comparable to what the good American mechanic can do in the United States.

Now, we have made very careful estimates of the effect of these maintenance provisions on our operations, and they

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(fol. 3734) show a saving for one year in maintenance alone for Panagra of \$581,000. That is a substantial item for Panagra, and it comes about because our maintenance can be pooled and integrated and fed into the maintenance shop—extensive shops—which you all are aware Pan American maintains at Miami.

We will both get the benefit of larger overhead and we will have substantial savings. The Board has seen and heard a great deal, I think, recently about the desirability of cooperative arrangement in this field of ground facilities of which maintenance is one.

This is a concrete, definite, practical, proposal that will involve very substantial savings. We have shown in detail that our equipment can be fed into this route and brought up there, that Pan American's maintenance schedules and work loads are such that they can take care of this, and we have shown this substantial savings that will help us to

maintain with Pan American a direct one plane through service which is efficient and able to compete with foreigners and others, and the same thing is true of the training.

I wonder if any of you on the Board appreciate Panagra's training problem. Panagra was recruiting its men here and taking them to South America. The expense per annum for travel and training of employees who don't work out, because they don't like South America or because they are wrong under some different heading, is \$12,000 a year. Just traveling expense.

By recruiting and bringing these fellows down, by pooling with Pan American in the states, we get not only the

[fol. 3735] access to the most modern equipment and the latest developments in the art, but we are relieved of substantial expense and in a much better position to recruit and train our people.

Chairman Landis: There seems to me quite a difference between those two arguments.

In order to get the benefits of so called pool maintenance you have to fly your planes up to the shops?

Mr. Gesell: That is right.

Chairman Landis: But in order to get the benefits of pooled training, this extension—not the extension but rather the opportunity to fly these planes profitably up to the United States—doesn't seem to me a requirement.

Mr. Gesell: I think so. Let's take the question of pilot training. Pilots need refresher courses and constant training, as the chairman is aware.

If our pilots come to the States on productive flying under this agreement, if our pilots are based in the States and can take their training and work with the CAA in joint maneuvers with other airlines and on the radio beams and everything, because they are there in the normal operation of their business, our savings are tremendous compared to carting them up there for that purpose and I think that any operating man would agree that the best place for a training base is close to where operations take place and crews are based.

So that it ties into the through flight arrangement even under the training heading.

The same is true of radiomen and other types of per-

(fol. 3736) sonnel

I think that the Chairman will recognize also that I am referring to these matters not alone because of their relation to the through flight, but to show the comprehensive way in which this very basic problem has been approached.

Now, I think there is another way to look at this matter from Panagra's point of view which I am going to suggest to the Board.

All of us in Panagra are sincerely behind this agreement, not only the personnel of Panagra, but Grace and Pan American and PAA and anyone who has anything to do with it. We are confronted here, however, with what seems to me a rather desperate argument from some of the intervenors who say that, "Isn't it a terrible thing that Panagra hasn't been allowed to apply for a route in its own name?"

Public Counsel suggests that 779 is the best way out of this problem, and Eastern, a vigorous opponent of solution of the Panagra problem by way of routes, now suggests that it is a terrible thing that that solution isn't possible.

I submit that some of the intervenors that you will hear here are not concerned with Panagra's problem of the merits of the solution but they are anxious to keep the controversy alive. They profit by it. They pick off it. They are not looking at this thing from the point of view of the public interest whatsoever, but I would like to meet this question of whether we should be permitted to apply for a route in our own name, head on.

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(fol. 3736a) I don't think it is determinative of this issue. If this agreement and arrangement here is in the public interest I can't see that it is determinative whether some other or different procedure would have been better or worse.

779 offers very little as the Board is aware.

If the Supreme Court decides in favor of Grace we are back into protracted proceedings before the Board on merits under every heading, and we see ahead years and months of very onerous litigation, but let us look at some of the

advantages which Panagra obtains under this arrangement, which the record clearly establishes would not have been available to it had it filed a new route application, because I think the argument can be met that way on its merits.

I want to point out in the first place that the service to the public under this arrangement is in every respect the equivalent of the service which would be available if Panagra had its own certificate extended.

The public will travel in a direct one-plane service, a safe service, a service with modern and efficient aircraft, with good meals — an excellent service in all respects.

The fact that Pan American and Panagra provide it jointly rather than Panagra providing it alone does not alter that fact.

Now, the advantages that we get under this arrangement — and ones that were important in reaching the decision on the part of Panagra to enter into the arrangement, are these: the maintenance problem which I have already talked about. Pan American would not have made its facilities

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[fol. 3737] available to us if we had come there on our own certificate, and the testimony is clear on that.

The testimony is also clear under the hearing of training, to the same effect. The testimony is even more clear as to the sales agency situation with respect to which Mr. Friendly has already discussed.

Panagra also under this arrangement is relieved of the obligation of making substantial capital investments which would otherwise be necessary — and that is not a minor consideration in these days of economy and difficult problems in maintaining load factors and showing black figures.

Panagra would not have had as ready access, as we believe we would get under this arrangement, to a number of United States points — at best Miami, beyond all hopes New York, and certainly not opportunities which this agreement presents of Panagra aircraft proceeding to such points as New Orleans, Washington and others.

Also, Panagra's load factors would not be sufficient, in our opinion, in our own, to maintain these through flights except under most strenuous and energetic solicitation of local business between Balboa and Miami.

We are left in this position to develop the international traffic and we get the benefit of PAA's local traffic in our load factors and moreover we are relieved from the very burdensome litigation and placed in a position where we can start to compete now, and not months and years later.

Mr. Ryan: Compete with Pan American you mean?

Mr. Gesell: To compete with Braniff, to compete with the foreign competitors, and to try to get back from Pan

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[fol. 3738] American, under this arrangement, some of the traffic from Buenos Aires which now, of course, is preponderantly in their favor because of their better service.

This enables us better to compete for Buenos Aires traffic, there is no question about that, but I am not pitching this argument on the question of competition with Pan American, but we are in a much better position to compete with them if we had through direct one-plane service between the United States and Buenos Aires. There is no question about that.

Chairman Landis: The solution of extending Panagra northward, on that point, your argument was more or less to this effect: that if this agreement is disapproved, the case now pending in the Supreme Court of the United States would go on. Perhaps as a result of that, Panagra will be in a position to file an application for an extension, and then you would have to go to the merits on that before the Board, and you said more or less you would be in the situation in which you are now.

I am just wondering about that. Time changes scenes a great deal. By the time you went through all that and found that legally Pan American was in a situation to file that application, it may be that three or four or five or six other American carriers would be certificated, that a number of foreign carriers might have entered the scene. It is practically a do or die proposition for you, now, isn't it?

Mr. Gesell: Yes. There is no question about it.

Chairman Landis: It isn't something for the future?

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[fol. 3739] Mr. Gesell: That is why I emphasized the time factor. We must have opportunity now and this agreement provides it. I had intended to speak at some length

to you about this other argument concerning the inherently bad situation which prevails in Panagra, in the view of the intervenors, who have seized upon an isolated phrase in an opinion in the Panagra Terminal Investigation of this Board, written on a jurisdictional opinion without reviewing the case on its merits.

I am not trying to tell the Board what it meant when it referred to an inherently bad situation. I suppose the Board knows that, but the record shows here clearly that there has been only one basic controversy in perhaps operations. That has been this extension problem. The line has prospered and grown.

The partners have cooperated under many headings. There has been a great deal of pioneering and efficient service, and if this solution, which we believe is a solution, is accepted by the Board, any cause for future deadlock or difficulty is eliminated.

Now, I think I had best turn immediately to a discussion of the legal questions which are raised. The first of these is the question whether or not Panagra requires an amendment to its certificate under Section 401 to operate under this agreement.

Chairman Landis: Here is a convenient place, I think, to recess for ten minutes if we can break into your argument. I think you have about 10 minutes left.

(Recess taken.)

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[fol. 3740] over the certificated route. Of course, here we have the radio controls and the operational and ground controls which is quite something different than in the motor field.

Chairman Landis: You ought to develop gliders.

Mr. Gesell: Yes. Some kind of chain of gliders might do it. I wanted to also discuss in my final point this question of Section 408.

Chairman Landis: Your time is about up. About two minutes.

Mr. Gesell: I hope I can go over just a bit. I guess I can take it off rebuttal.

I want to cover this section 408 problem.

There has been a great deal of talk about it. I want to first make clear that the problem has two aspects. One is whether or not Grace and Pan Corp are essential parties to this proceeding, and second, whether the parent company agreement should have been formally filed for approval.

It, of course, was filed as an exhibit and has been before us. I want to make clear what the record shows on this parent company agreement situation. It was attached to Pan American's petition as an exhibit. It has been before the Board since the proceeding was initiated. We stated at the pre-hearing conference, and again on the record, that all facts concerning the execution, operation, and meaning of the parent company agreement were before the Board for consideration.

We presented witnesses from Pan Corp and Grace who were examined at length concerning the agreement, and every aspect of it was gone into. We even said that it was

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[fol. 3741] our view, and we so stipulated it and made clear, that if the Board didn't like some provision of the parent company agreement, it could require its modification as a term or condition attached to the approval of the through flight agreement.

And then, so that there would be absolutely no question about it, we filed a stipulation in this proceeding which was specifically stipulated to by Grace and Pan American Corp, which said, "You can make us parties in this proceeding if you want, from the outset, we recognize the jurisdiction and the power of the Board over us," and they said, "We are here and you can do what you wish concerning us."

That stipulation is set forth in the appendix to our main brief. So that on the facts there has not only been no concealment of this parent agreement but the fullest exploration of all its terms and provisions and the parties to that agreement, Grace and Pan Corp, have recognized and acquiesced in and bowed to any jurisdiction which the Board wishes to take over them in connection with this proceeding.

So that as far as any problem of essential parties is concerned, I can't see that it exists at all.

The other question, however, is whether or not the parent company agreement required approval because under the agreement Grace was acquiring control of Panagra. That seems to be the gravamen of these various arguments about 408—the assertion that Grace has acquired control of Panagra.

We say that is not the case. In the first place, to bring

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[fol. 3742] the agreement before the Board, the Board must find that Grace is an air carrier or a common carrier or a person controlling an air carrier. There has never been any determination on those issues except by Examiner Nye in one of the proceedings, who found that Grace was neither a common carrier nor an air carrier.

We think it falls in none of those categories. It certainly isn't a person controlling an air carrier within the meaning of the section because whatever may be its control of Panagra of a negative sense, the statute obviously has in mind the control—a person who controls one air carrier who seeks to acquire control of another carrier.

But we don't have to decide those because I think on the merits it is perfectly clear that there has been no acquisition of control here by Grace.

Pan American and Grace each continue to own 50 per cent of the stock. Mr. Roig who has been the only President of this company and who has served in that position since 1939, continues in office.

Now, what is then perhaps, the difference? Has the President gotten additional powers? Perhaps through that angle it could be said, and that seems to be the argument particularly of Eastern, that the President here has gotten in some way, solidified in a position under the parent company agreement, which gives Grace control.

That is not the fact on the record. The testimony is explicit that the powers of the President had been substantially reduced by this agreement. His activities have been limited in that he has not as much control over the

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[fol. 3743] section of one of the key personnel, the Vice President in Charge of Operation. And there is nothing

in this contract which changes the basic fact that the President is not in a policy position. He remains in the administrative position he has always held in Panagra, a position where he must proceed in consultation with both groups of shareholders and proceed on policies which both groups of shareholders determine.

His testimony in this proceeding was explicit that he had an administrative and not a policy post and that hasn't been changed by this proceeding at all. I think his position has been weakened moreover by the fact that he can now be removed. He used to be a President sitting in this position and there was no machinery for his removal.

That doesn't exist any longer. The contracts are explicit as to his removal. The cases which Eastern Air Lines has cited in one of its—I can't remember whether it is the first, second or third filing of the particular motion concerning the power to appoint the President being a determinative factor in control are in cases not involving a fifty-fifty company, cases not involving whether there has been an increase in the character of control from an affirmative to a negative control.

They are cases involving small family bus companies where mothers, aunts, sisters and uncles bring in from the outside a trained operator to carry on after the old man has died and he is given policy as well as administrative functions.

Clearly such a man is in a totally different position [fol. 3744] in relation to motor carrier than Mr. Roig is in relation to Panagra under the facts as the Board knows them to have existed in Panagra's case.

I, therefore, conclude, again asking the Board to approve the agreement making it immediately effective.

Mr. Lee: I want to ask one question, Mr. Chairman.

Obviously there are some nice questions here, legal questions, as to whether this should be a 401 or 408, and so on. Then there is the question of competition more or less.

What do you conceive to be the real issue in this case though?

Mr. Gosell: I think it is the public interest.

Public interest in terms of providing direct one plane service between the East Coast of the United States and the West Coast of South America, public interest in terms of all of the factors we have had mentioned concerning passenger convenience, concerning building up Panagra as a strong competitive unit, public interest under all of the different standards that the Act in Section 2 indicates—efficiency and economy of its operations, the coordination of air transportation—all of those things we talked about.

Mr. Lee: Do you agree with Mr. Friendly that the competition issue is relatively small and unimportant in this case, that there would be as much or more competition, and even so it is still small, it will be cooperative?

Mr. Gesell: I take it you are talking about competition between Pan American and Panagra?

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[fol. 3745]. Mr. Lee: Yes, that is what I had in mind.

Mr. Gesell: Because I think Mr. Friendly and I both agree that there is plenty of competition independent of that, but as to that issue, I quite agree that this agreement establishes no competition between Panagra and Pan American north of the Canal, but I say,—and I don't know whether Mr. Friendly touched on this or not—that this agreement enables Panagra better to compete with Pan American for the important Buenos Aires traffic, so to that extent, I think it even furthers the competitive picture.

Mr. Lee: It seems to be competitive and cooperative, if you understood Mr. Friendly, that passengers would have the choice of going down one side of South America and coming back the other.

Mr. Gesell: That is right. Of course, Mr. Lee, I am sure you will recall the statement of Justice Brandis, that the Sherman Act, and those who were concerned with competitive questions, never intended that the competitors couldn't contract in order that competition can exist.

Mr. Lee: But generally the competitive issue between Pan American and Panagra, it is your position and Mr. Friendly's that that is relatively small in this case.

Mr. Gesell: Yes. We say, that what has happened with the development of air transportation, is that Panagra

is no longer to be looked upon as an independent regional competitor, along the lines of Mr. Parden's Book "The Struggle for Latin American Airways," for example, that that competition has been supplied by the Board and through Braniff and has been supplied by the great rise

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[fol. 3746] in foreign competition.

Mr. Lee: That is all, Mr. Chairman.

Mr. Branch: Mr. Gesell, I wonder if the public interest couldn't well lie in the question as to Panagra being an independent carrier, independent all the way from Buenos Aires to the United States.

I ask that question and make that observation because I also wonder if maybe some of the competition that Panagra now is facing might not have materialized had Panagra been an independent carrier from B.A. to the United States. If that is true, or if that is a fair assumption, then I am wondering if Panagra still remaining subordinate, and having no extension in its own right to the United States, might not still face some questions of whether there is further needed competition direct from the East Coast down the West Coast of South America through the Canal Zone. All of those questions it seems to me seem to hinge around whether this arrangement provides the competition necessary in the public interest.

I agree with you that this is a public interest question pure and simple, and I don't know—I am not sure in my own mind—but those points do arise in my mind—and I would like to have you, just for a minute or so, see if you could do anything to help me on the question of whether or not we don't still have a problem in competition or lack of competition.

Mr. Gesell: Well, I think I would approach it this way, Mr. Branch.

I would first urge upon you that you take a look at

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[fol. 3747] conditions as they exist today. We have had so much of that Panagra problem up before us so many times and so many different ideas have been advanced as to what its role is, that perhaps in the process some of us have solidified one idea or another as to what its role should be.

You will recall that in this proceeding, in the Latin American case, Braniff urged it be certified into this area because it said one of the advantageous things about that would be that it would bring Pan American and Panagra together in some kind of cooperative arrangement.

Whether that was the factor or what the factors were that brought about this agreement it is difficult to say. It has been the product of that. It has been the product of the recognition of the impossibility of obtaining any approval from Pan American to come up as an independent carrier and it has been Panagra's recognition of the fact that its opportunities to compete are not necessarily only in the direction of Pan American, but that it has got to fight for its life against a rising flood of American and foreign competition.

Now, this agreement can be in the public interest, it seems to me clearly, even if it doesn't, in the opinion of the Board; provide sufficient competition in this area. It can be in the public interest because of its effect on coordinated transportation, aid and convenience to the passenger, economy and efficiency of operations, and these other headings.

Now, if the agreement is approved on that basis, and not because it is a means of creating additional competition—

[fol. 3748] titition—because that is only one of the tests—a test which perhaps can be over-emphasized—the Board can take a look at this picture and see whether there is enough competition.

Mr. Branch: Yes and you can't have the—

Mr. Gesell: I would suggest that they not do that until they see what the operations under this agreement show, but that would be for the Board to determine, and I don't think the case should be approached from the narrow question of competition alone. That is just one of the factors.

Mr. Branch: This doesn't change the competitive status between Pan American and Panagra.

Mr. Gesell: Except that it puts us in a better position to try to get some of their traffic at B.A. We can't do a thing without this agreement. We can't compete with

that one plane direct New York San Juan Buenos Aires route.

Mr. Branch: Now, on this lease arrangement, you bring your plane and your load passengers whatever it is up to the Canal Zone and under the charter contract you turn them over to Pan American and Pan American brings them over its certificated route from the Canal Zone to Miami?

Mr. Gosell: That is right.

Mr. Branch: And hopes to bring them to other places, as I understand it?

Mr. Gosell: We hope they will bring them to New York.

Mr. Branch: So you have no more control over it after it leaves the Canal Zone.

[fol. 3749] Now, what happens on their turn trip? Pan American's plane with its name on it and its pilots sitting in the cabin, fly to the United States. When they start back, one whose account are they flying, who sells the tickets going back, who controls the traffic when it leaves?

Mr. Gosell: Pan American under all those headings.

Mr. Branch: So then the competition isn't as clear as it would be, were there two different companies operating?

Mr. Gosell: Well, we have a common sales agent Pan American.

Now, Pan American as a common sales agent has taken on obligations under this contract not to discriminate against the East and West Coast traffic.

Mr. Branch: What do you expect to get in the way of traffic to B.A. from the United States?

Mr. Gosell: We expect to get, in traffic that doesn't itself indicate its own route, an equal share. You understand that most of the traffic indicates its own routing. A man says, "I want to go via Lima, I want to go via Santiago, I want to go to Rio," and that gets decided.

Mr. Branch: Oh, of course.

Mr. Gosell: But in the cases where the man is undecided, we expect to get an equal share of the traffic, judging relative frequencies and matters of that sort.

Mr. Branch: But the tickets are still sold by Pan American?

Mr. Gesell: They are still sold by Pan American, but the agreement contains very detailed provisions to safeguard against any possibility of discrimination and in the

[fol. 3750] event discrimination should occur, which Mr. Roig, and Panagra, and Grace, and every one are confident will not, because of the manner in which this agreement was entered into, there are provisions in this contract for discontinuing Pan American's sales agency.

Mr. Branch: There was a time not so long ago, was there not, when Panagra had the time and distance advantage between the Canal Zone and B.A., which perhaps it still has, but never was allowed to enjoy the benefits of such time and distance advantage.

Pan American brought the traffic down from the United States to the Canal Zone, and for a long long time it went around by way of Barranquilla and back up while your planes waited at the Canal Zone to take it down to B.A.

In recent years there have been some direct planes and the services have been increased. I don't know how many there are now, how many connections you get direct with Miami?

Mr. Gesell: We get connections for every service we run in there now.

Mr. Branch: For every service you run in?

Mr. Gesell: Yes.

Mr. Branch: So that you don't have the same problems you had a few years ago?

Mr. Gesell: I think it was more than a few years ago. I think it was many years ago.

Mr. Branch: It doesn't seem very long that I was trying to get Pan American to give you a direct service to the Canal Zone?

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[fol. 3751] Mr. Gesell: It was quite a ways back.

Mr. Branch: My questions are directed to the point—maybe it isn't a good one—this arrangement doesn't in any way clear up what might have been lack of competition which may be of interest to the public.

Mr. Gesell: If your decision is that none of these public interest questions which Mr. Friendly and I have dis-

discussed here today are as important as launching Panagra as a wholly independent competitor of Pan American, if that is your decision. I can't conceive on the facts how it can be—but if that is your decision, this agreement doesn't accomplish that.

This agreement enables us far better to compete, even with Pan American, and certainly better to compete with Braniff and certainly better to compete with the foreigners. It encourages competition, but it doesn't put us in the position of an independent competitor to Pan American and I don't quite see how that role can be suggested in the light of Pan American owning 50 per cent of Panagra, and in the light of the close working arrangements we have had under the heading of traffic and maintenance and technology of all kinds.

I think it may be an unrealistic approach.

Mr. Branch: So your contention and Mr. Friendly's contention is that regardless of the question of competition, this arrangement does provide something in the public interest and ought to be considered on that basis. If there is any additional competition needed because Panagra is still an arm in the branch of Pan American then

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[fol. 3752] the Board can consider that.

Mr. Gesell: The Board can consider that.

Mr. Branch: The thing before us is the matter of improving the existing condition.

Mr. Gesell: That is right and we would hope that before the Board embarked on considering the competitive situation any further, it would do two things: it would wait a reasonable time to see what happens under this agreement, and it would wait a reasonable time to see what the traffic and competition is in this highly growingly competitive area.

We think we are going to have, Mr. Branch, in just plain fact, we think we are going to have a situation where we, if we were operating between New York and Washington, we will have 41 competitors, that is what we think we are up against. That is the simplest way I can say it.

Judging the traffic, making fullest allowance for the potentials, putting it against the situation which exists

right now between Washington and New York, we think we will have the equivalent of 41 independent competitive airlines, and we think that is pretty hard competition.

Mr. Roig's testimony is explicit and detailed on that and I trust the Board will have an opportunity to glance at it.

Mr. Branch: Thank you.

Mr. Ryan: Mr. Gesell, there would be just as much competition between the United States and South America, through this agreement, as Pan American may permit, will there not?

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[fol. 3753]. Mr. Gesell: I don't understand that question.

Mr. Ryan: I understood you to say Pan American will have control of all of the solicitation agencies facilities within the United States. If Pan American wants to, it could divert traffic, could it not?

Mr. Gesell: No. No it cannot.

Mr. Ryan: Why?

Mr. Gesell: If it diverts traffic it violates the contract.

Mr. Ryan: I mean to say you have the power to divert traffic?

Mr. Gesell: I think it hasn't the legal power. If it diverts the traffic it violates the contract. We can take them immediately to arbitration under this agreement. They cannot, under this agreement, prevent Panagra from taking them to arbitration and if the arbitrator finds that they have discriminated they lose the sales agency.

So, I say, it is unrealistic to say they can discriminate.

Mr. Ryan: How do you know whether or not there has been any discrimination, if you do not have ticket agents alongside the Pan American ticket agents in the United States?

Mr. Gesell: Panagra has been accustomed to watching Pan American in the flight of Pan American's sales agency activities.

We have statistics as to what is happening to the traffic. We have many friends who travel over Pan American as well as Panagra. We will have under this arrangement full access and close relations to the actual people selling

[fol. 37.54] the tickets. You understand that in these sales agencies a man, while a Pan American employee, will be designated to watch particularly for Panagra's business just as they will designate a man to watch the North Atlantic or a man to watch the South Pacific, and we will have much opportunity and many ways of knowing whether there is discrimination and if there is discrimination Panagra will take forward the rights it has under the contract, and the matter will be resolved.

I don't think that is going to happen.

Mr. Ryan: If this agreement is approved, and Pan American lives up to the agreement in that respect, there will develop a friendly competition between two branches of the Pan American system, insofar as this operation is concerned.

Mr. Gesell: This agreement doesn't quite reach that stage. If you are talking, by analogy, I think it even goes too far. Panagra does not become a branch of the Pan American system. It has its independent management, it has its independent Board of Directors. It continues as a separate identifiable carrier under the management of a different person—W. R. Grace and Company.

Mr. Ryan: I didn't mean that. I meant insofar as this route is concerned, insofar as this operation is concerned, there will be a kind of friendly competition between two branches of the same system.

I am not implying by that question that I think there should be competition between two branches of the system, but I am saying, as a practical fact, it will be a kind

[fol. 37.55] of such competition as will exist will be a friendly competition between two branches of the same office, will it not?

Mr. Gesell: I think it will be competition, and I think it will be friendly.

Mr. Ryan: Let's say cooperation.

Mr. Gesell: Perhaps I haven't adequately made clear to you that Panagra will have its own traffic generating organization as it has today. Not only some staff in the United States, but a tremendous organization in South

America too, and the competition isn't going to be simply the competition where all traffic is sold by a single sales agent.

There is going to be real competition. We are going to sell people on the idea that Quito is a lot better place to go than Rio de Janeiro, that the fishing at Santiago is a great deal better than the fishing at some point on Pan American's route wherever it is. There is going to be real competition.

Mr. Branch: But the people in South America know that, don't they? It is the people up here you want to tell about it.

Mr. Gesell: That is right and we are going to tell them.

Mr. Branch: Do you have sales agencies in the United States?

Mr. Gesell: We have under this agreement a sales agency in the Chrysler Building, with an independent advertising program, with independent persons who call upon the traffic agents.

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[fol. 3756] Mr. Branch: Where do they sell?

Mr. Gesell: They sell in the United States.

Mr. Branch: Where do they advertise?

Mr. Gesell: They advertise in Time Magazine, and all the other periodicals. I am sure you must have seen some of those advertisements.

Mr. Branch: I was just trying to remember.

Mr. Gesell: There has been an extremely active program ever since the war ended to generate that traffic and I am sure if you glanced at any of the periodical currently in your office you will see it, and our Panagra man go and call upon the PAA sales agency setup. You see PAA sales agency is of two kinds. They have got Pan American offices, main coordinating offices, but they have a great mass of agents—people in hotels, people in the steamship business, people in the railroad business, people in travel agencies, and we are in direct contact with those people. We are sending them literature. We are calling upon them. We are urging them to sell Panagra traffic. We are pointing out the advantages of the Panagra route and we are trying to generate traffic in the United States. We are doing it.

Mr. Branch: Under this contract, as I understand you, you are not permitted to sell tickets. They are all handled by Pan American, but you are permitted to have agents who are advertising and trying to convince people that you have something to offer them, and they should go your way?

Mr. Gesell: That is right.

Mr. Branch: I suppose you could have such an educa-

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[fol. 3757] tional agency in Miami as well as in New York?

Mr. Gesell: Yes, surely.

Mr. Branch: And any other place you wish?

Mr. Gesell: Surely. There is nothing in this contract that prohibits that in any way. It is a centralized Panagra Company-wide program that needs some central direction, and it has been in New York for that reason. We have travel films, we are showing them to the agents. We have a very active program.

Chairman Landis: By the way, when I go down here to Union Station and ask for a ticket to New York, do I get it over the Pennsylvania or the B and O?

Mr. Gesell: You get a separate ticket, I think.

Chairman Landis: I don't know. I would like to know.

Mr. Gesell: They ask you which way you are going and you get a separate ticket.

Chairman Landis: Suppose I say "Which way is the best?" what answer would I get?

Mr. Gesell: It depends on—the question of which is best—you would probably have to talk to the Pennsylvania man and the B and O man.

Chairman Landis: Who is the man I talk to. Is he a Pennsylvania man?

Mr. Gesell: I understand he is a Pennsylvania man.

Chairman Landis: It is the Union Station.

Mr. LaRoe: It is the Washington Terminal.

Mr. Gesell: I don't know who he is. Maybe he is an employee of the station.

Chairman Landis: You do have separate ticket offices

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[fol. 3758] in Buenos Aires, don't you?

Mr. Gesell: Oh, yes. Well, in Buenos Aires we have a combination agency with Pan American that has existed there for a long time.

Chairman Landis: Today?

Mr. Gesell: Today. We have separate ticket offices all along the West Coast, at all our points.

Chairman Landis: But this agreement, as I remember it, does not extend the point sales agency idea—that is, not the joint sales—but the Pan American sales agency idea, to points other than points in the Continental United States. Is that all?

Mr. Gesell: Well, it continues it in the United States and does not extend it to South America at all. You see it has always been in the United States. That has always been off-line for Panagra, but Panagra has its own organization.

Chairman Landis: So far as competition between Pan American and Panagra is concerned, this agreement does, according to your contentions, improve the service from Miami and Eastern points to Buenos Aires, so far as Panagra is concerned?

Mr. Gesell: That is right.

Chairman Landis: And that improved service you contend enables you to compete more effectively with Pan American than you do today?

Mr. Gesell: That is right. For the common point traffic.

Chairman Landis: For the common point traffic?

Mr. Gesell: And it also enables us to attract people

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[fol. 3759] better to non-common points. A man would be more likely to go to Santiago to fish than if he has to change.

Chairman Landis: I was looking at it from the competitive standpoint. How else does it improve your capacity to compete with Pan American than that?

Mr. Gesell: Other than to the common points.

Chairman Landis: No. To the common points.

Mr. Gesell: It enables us better to compete for the Buenos Aires traffic by reason of the fact that we have under the arrangement a direct one plane, faster service, but it doesn't affect the solicitation of traffic at Buenos Aires.

Chairman Landis: If I may make my point I think it is this: Admitting the efficacy of the agreement to increase your capacity to compete with Pan American, does it at the same time reduce your willingness to compete because of the fact that solicitation along this line in the United States is in the hands—

Mr. Gesell: I don't think so at all.

Chairman Landis: That is the point.

Mr. Gesell: I don't think so at all. I see no reason at all why we should do that.

Chairman Landis: That is the argument against that.

Mr. Gesell: We have developed quite a long ways since the ancient and hoary days of 779. We have quite an independent set up and satisfactory set up in the United States and we are developing a business to Buenos Aires via the West Coast and anything that will help us get our traffic there more efficiently helps us in that drive.

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[fol. 3760] and the notion that Pan American is also selling tickets doesn't affect that.

The competition still is there. There is nothing in this agreement that diminishes the situation at all. In fact, I think it approves it on the solicitation level even.

Mr. Branch: If you are in the United States and free to act independently you ought to get the lions share of that business, oughtn't you, from B.A. to the United States, instead of just impartial provision?

Mr. Gesell: Well, Mr. Branch, I don't know. Let's see where we are. Are we talking with Panagra stopping at Miami.

Mr. Branch: I am talking with Panagra coming to the United States, wherever it may be. Whether it is New York or anywhere else?

Mr. Gesell: It is a tremendous difference. The traffic generates around the New York area. We think as long as Pan American has this route here (indicating on map) down through San Juan direct to New York, even if Panagra's planes come under this agreement to Miami under Pan American's route, that we probably won't get the lion's share of the business because we think—

Mr. Branch: You think they will be picked up at New York?

Mr. Gesell: Yes, and we think it is a better service. We think it is a lot better service.

Mr. Branch: I think maybe you are right.

Mr. Gesell: The traffic isn't down here but if this route here is filled in between New York and Miami through

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[Col. 3761] the domestic case and if this agreement becomes operative so we can fly sleeper planes from New York to Buenos Aires we are going to give them a hell of a good run for their money and probably beat them because we are going to have a faster service and an equally efficient service and I should think we would have more than they do of the traffic.

Mr. Branch: But they sell the tickets at more than you do and give you an impartial division?

Mr. Gesell: No. You haven't read the contract.

Mr. Branch: I thought you said that?

Mr. Gesell: I said the contract speaks against discrimination, and you, I believe, have mentally said an equal share of the business. The contract says they must develop Panagra traffic in the same way as they develop their own without discrimination which means that if they have the advantage we have the advantage by way of routes and we should get the traffic.

Mr. Branch: Do you expect to do that?

Mr. Gesell: I think if we get to New York we will have more of the Buenos Aires traffic than they do.

Mr. Ryan: Is this agreement responsive to that suggestion in the Latin American agreement that Panagra—I hate to quote it because I don't recall just what it does say—I wish you would check on it—that Panagra should be brought to the United States.

Mr. Gesell: I think the Board said that they would welcome the filing of an application to enable the determination of whether Panagra should come to Miami, New York or some East Coast point. They were speaking in terms of a route application. This is not a route application.

[fol. 3762] Mr. Ryan: I think it is responsive to the substance of the Board's thinking on that.

Mr. Gesell: I think the Board must determine that, Mr. Ryan, not I, but I think it is responsive to the mandate, the spirit of the mandate and the problem that the Board was concerned with. I think the Board was anxious to fill this gap—a direct one-plane service between the East Coast of the United States and the West Coast of South America. I think this fills it and I think it does it efficiently.

Mr. Ryan: Either you said something about Braniff having been put in in the Latin American decision, had created a competition, and that this was to enable Panagra better to meet that competition.

Braniff operates and would take care of the traffic competitively from Houston and New Orleans but Braniff doesn't extend to the East Coast of the United States. Therefore, would it be necessary, in order to provide a balance of competition between Braniff and the Pan American-Panagra system, to extend Braniff to the East Coast of the United States from the Canal Zone.

Mr. Gesell: Well, Braniff has a little more than a route from Houston. Braniff has a big system as of course you are aware all through the central part.

Mr. Ryan: If I were in New York I wouldn't want to go to Chicago and then take Braniff.

Mr. Gesell: Probably not. I think we are talking there about, roughly, 40 per cent and they would have a direct one-plane service there. One way to balance that is to

[fol. 3763] give us a direct one-plane service to a bulk of the traffic also.

Mr. Ryan: "To Houston."

Mr. Gesell: Even though it is not the same traffic. Even though it is not the same but I think we all have in mind and cannot get out of our mind the fact that the Board brought Braniff across here (indicating on map) out of its way to Havana, and brought National down to Havana, and we can't get out of our mind the fact that eventually we are going to be confronted with direct one-plane competition by Braniff throughout this whole area.

Now, Braniff, of course, has no such plan indicated in the record. Mr. Schneider has been careful to point out that he knows of no such thing but we think it is inevitable. We think when Braniff becomes familiar with Latin American problems-- and I must say they are getting familiar very fast, with their survey flights and what not-- we think they will come to it. But we also have one-plane direct competition from the foreign airlines. It is not alone a question of Braniff. We are confronted with direct one-plane competition by BOAC.

I hope if you will go by the Mayflower you will notice the offices they have. Somebody says that is speculative competition. I can't understand. And we are going to have direct one-plane competition from the Chileans, from International, from Peruvian International Airways. We have it in the northern part of our route both from TACA and Avianca now and I imagine there will be others.

Mr. Ryan: So you interpret this agreement then in the

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[fol. 3764] light of the Latin American decision as an answer to the Braniff competition plus the foreign competition to which you would be subjected which, as I understand your argument, changes somewhat the decision from what it existed prior to the Latin American decision.

Mr. Gesell: That is right.

Mr. Ryan: In other words, now you are trying to fund your resources and trying to meet the competition of Braniff and the foreigners, and sustaining the public interest from the standpoint of a need for that kind of competition to South America rather than a competition between pre-existing carriers to South America. That is really your position, I think.

Mr. Gesell: Precisely except, as you stated it, you put it, I believe, in a negative sense. We think we are doing something affirmative here quite apart from this competition thing. We think we are creating a direct one-plane service to fill this gap, and that it is needed.

Mr. Ryan: That is right but also there would be a public interest in strengthening the Pan American Panagra system would there not, by putting it in a better position to meet the competition that has been put down there by the United States and by foreign air carriers?

Mr. Gesell: That is our view and we think that competition is far greater than anything we have had so far today.

Chairman Landis: The extent of competition of Pan American and Panagra have been subjected. I mean Pan American flag competition—has always been within the

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[fol. 3765] control of the Board, hasn't it?

Mr. Gesell: Even under the mail pay-contract days, as a practical matter, it was difficult to operate without the mail contracts and the award of those contracts, and the control of the Post Office Department.

Chairman Landis: So that the government has always controlled the extent of competition?

Mr. Gesell: Yes.

Chairman Landis: Except insofar as Panagra and Pan American may not have competed with each other because of Pan American's 50 per cent control of Panagra.

Mr. Gesell: Yes, that is true. Of course, I think we have an American form of competition now, Mr. Chairman, that I am not sure the government can control, and I speak of the pseudo foreign competition.

We are confronting now and we are going to more and more, American competition in this area that I think nobody can control. We are confronted with Peruvian International Airways, for example, with essentially American and Canadian competition, and the Board I doubt has much control over that, nor the President. Peru determines that General George and his associates are a Peruvian carrier, and I think we are into an area where we are going to meet American competition, even in spite of the Board's efforts.

Chairman Landis: What is to stop Panair do Brasil being designated as the Brazilian carrier up to New York?

Mr. Gesell: Nothing at all.

Chairman Landis: Nothing at all.

Mr. Gesell: Nothing at all. There is in the minds of

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[fol. 3766] some of us, however.

Chairman Landis: It may be that your control over Panair will stop it coming into competition directly with Pan American.

Mr. Gesell: We have our TACA problem too.

Chairman Landis: But it is not all white?

Mr. Gesell: It is not all white, no. I don't intend to make it that.

Chairman Landis: That is all I have.

Mr. LaRoe.

Mr. LaRoe: I am ready, sir.

ARGUMENT OF WILBUR LAROE PORT OF NEW YORK AUTHORITY

Mr. La Roe: May it please the Board, the Port Authority was permitted to appear as friends of the court here after two intervening petitions had been denied.

Under those circumstances I do not feel it would be right for me to present the same kind of argument that I would make if I had been permitted to intervene. I feel that one who is permitted to intervene as friend of the court has a certain obligation to deal with principles and to try to be helpful to the Board rather than pleasing his special case.

For that reason I shall make no further reference to New York in my argument. Why is this little case of such tremendous importance. Why are the eyes of the whole aviation industry on this case?

The answer, I think, lies in the fact that there is a very important principle involved here. Last month on

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ARGUMENT OF HUBERT A. SCHNEIDER BRANIFF AIRWAYS

Chairman Landis: We will have to adjourn in ten minutes. Can you fix your argument accordingly?

Mr. Schneider: If it would be of convenience to the Board I would like to go straight through but if the Board would like to have me stop in ten minutes I will try to find a good breaking point.

Chairman Landis: We would like to make use of that ten minutes if at possible.

Mr. Schneider: Let me say this is not an interchange. There seems to be some confusion there and the best authority I can find you on that statement is Mr. Roig himself as well as counsel for both of the parties. There was much conversation during these hearings as to whether this agreement would be better or worse than an interchange or why an interchange hadn't been worked out and Mr. Roig vehemently stated that he had no interest in an interchange, that that had been suggested to him many years ago by Pan American and he had no interest in Pan American's planes going over his routes.

He wanted his planes to go north and his traffic to go north. I believe Mr. Gesell suggested, "Let's avoid the use of the word interchange. It is a one way street. Panagra's planes go north. This not an interchange."

In the time allotted to me I can not cover all the points involved in this very intricate contract. I suppose the time has now come for some of us to tell you what we think is wrong with it and why it is not in the public interest. Now, the parties here asked you substantially to confine your

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[fol. 3768] examination to the four corners of this agreement, look within the four corners as to whether it is in the public interest. They don't want you to go outside at all except perhaps to look at contract B in deciding whether contract "A" is good.

Now, I say that you can't do that. You can't determine whether contract "A" is in the public interest without going outside of it. You have got to decide a number of other questions. You have got to decide first:

Who are the parties that have made this question?

What is the likelihood of their working out some of the very complicated provisions here?

What is the background of this contract?

What produced it?

That is what I would like to do in part of the time I have to review the history of that contract and what brought it into being because I don't agree that you can look only at the four corners of this instrument and decide the ques-

tion as posed by the statute under 412. You will recall that back in 1940 when Pan American sought entry into New Orleans, Mr. Roig, then president and still president of Panagra, became quite disturbed about that development. He thought an extension from Guatemala to New Orleans and the Canal Zone would foreclose an entry of Panagra in the future which he was then trying to get and he asked for authority of the Board of Directors to file application and was turned down.

The Pan American Directors on Panagra's Board, didn't see eye to eye with him or with the other directors on this point and they refused to sanction the filing of any such application by Panagra. This gave rise to one of the most

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[fol. 3769] bitter controversies that this industry has yet had. Pan American refused to sanction any action by Panagra which it conceived to be adverse to its own best interests. Its directors refused to attend meetings called to consider this very question and they refused to consider Panagra's welfare divorced from Pan American.

Numerous attempts to solve this difficulty were unsuccessful with the result that Grace was finally compelled to file bitter complaints and various documents with this Board and Pan American filed numerous bitter answers.

Efforts by the Civil Aeronautics Board to reconcile the outstanding differences met with no success. Pan American was adamant in its refusal to permit Panagra to come to the United States. You know that. This resulted in the now famous 779 proceeding in which the Board on its own initiative and without any application from Panagra sought to inquire into the question and into the advisability of whether Panagra should be permitted in its own name to come to some point in the United States.

Mr. Ryan: Required to come to some point. Wasn't it? Wasn't it mandatory?

Mr. Schneider: I believe you were looking at the question from whether the public convenience and necessity under section 404, I believe, the amendment provision of the Act, required the extension of Panagra to the United States.

Now, the full record of that proceeding, the 779 proceeding, has been incorporated by reference into this proceeding. True, over the objections of Mr. Gesell and Mr. Friendly. But we felt that we had to have the whole picture to deter-

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[fol. 3770] mine the question here, so you do now have it. The Examiner admitted it. Now, I haven't any intention to review all of 779. I wasn't in that case. I haven't any where near the familiarity with it that you have, but I do say that you should have it in mind, and the things that were said and the things that went on there are part and parcel of what is going on here today.

Now, that record probably involved as much mutual re-crimination and charge and counter charge, or what perhaps might be called aeronautical billingsgate, as any case you have ever had and today they say, "All is light, peace on earth, good will toward men, it is Christmas, we are happy".

Chairman Landis: Sometimes they come.

Mr. Schneider: I intend to show you that they have not yet arrived at that point, sir. I say that record contains in it as unsavory a episode in air transportation as I hope I or any of us will ever see and if this were the answer I would welcome it.

Personally, I have always been sorry that in the 779 case you didn't decide the case on the merits and that you felt compelled to go off on a procedurely point. Apparently, you were of the same minds if I interpret your decision in the Latin American case correctly.

However, the Board's decision holding that it lacked jurisdiction to extend Panagra to the United States did not end the controversy. Grace appealed the Board's decision and met with some degree of success in the second circuit in New York and therefore the Court recognized the unhealthy situation existing between these parties but

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[fol. 3771] the fight continued. Pan American appealed the decision of the Second Circuit to the Supreme Court of the United States and apparently it was at that time determined that only the highest court in this land should tell a law to conduct its investment in Panagra and whether or not what it was doing was in the best interests of the public.

Only the Supreme Court should tell them what to do on that, not you. Both parties at this time were beyond reconciliation. Both were determined that the other was guilty of improper motives. Each was determined to force his will upon the other. And that is where the matter stood last May. That is history and it is history contained in the records of 779 and in the records made up in the second Circuit and presumably which would have been made in the Supreme Court, but in May of this year, something happened.

You issued your decision in the Latin American case and your decision brought about something which neither party had apparently expected and which threw as much confusion into Pan American's camp as it did into Panagra's camp.

Suddenly, Pan American and Grace were confronted with another American line having been extended into South America over the top of their company, Panagra. Each had felt himself so secure in his own domain in South America that this contingency had apparently never occurred to them.

While they had been grappling on the mat over the United States extension for Panagra, this Board with the approval of the president, extended Braniff into South America and it is nice for me to speculate whether this Board would have extended Braniff into South America or whether the

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[fol. 3772] president would have told you to put a second line into South America had these parties presented at that time such an agreement as they presented after the fact.

Now, Mr. Friendly, and Mr. Gesell would have you believe that as of the date of the Latin American decision, or shortly thereafter, both parties decided to lay aside their differences and animosities and that they then took the pledge, the pledge serving the public interest.

I believe, however, that a fair interpretation of Mr. Roig's very frank testimony—and let me say to you that never has been a franker witness that appear on this stand before this Board than Mr. Roig—would lead you to the simple conclusion that the fact that the Braniff extension scared

them out of their wits and forced them to abandon their suicidal and mutually destructive struggle in the face of a common foe. It was no sudden realization of its obligations to the public interest, or to the travelling public over Panagra's route which led Panagra into this agreement; nor was it any change in the course or objective which led Grace to abandon its efforts to get Panagra into the United States in its own name. It was the extension of Braniff into South America. Consider Mr. Roig's testimony.

He stated, without any reluctance at all, that almost immediately after the Latin American decision he called a meeting of the Board of Directors of Panagra to consider this new development, particularly in the light of your language in the Latin American decision that you mentioned, Mr. Ryan, as follows:

"In view of the facts above outlined", in lieu of which

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[fol. 3773] you review the unhealthy situation, "we feel that the joint owners should in the public interest cooperatively enable Panagra to apply for access to the east coast of the United States."

Now, note especially that your decision said, "enable Panagra to apply", and there is nothing in that language about an agreement to bring Panagra's traffic to the United States over Pan American's route.

Chairman Landis: I am afraid I will have to stop you here. We will reconvene at 3 p.m.

(Whereupon, at 12:50 P.M. a recess was taken until 3 p.m. the same day.)

[fol. 3774]

3 p.m.

AFTERNOON SESSION

Chairman Landis: All right.
You may resume, Mr. Schneider.

ARGUMENT OF HUBERT A SCHNEIDER

BRANIFF AIRWAYS (Continued).

Mr. Schneider: Before we adjourned at the noon recess I had been reviewing the history of controversy between Pan American and Grace and I brought you up to the point of the Latin American decision and was about to tell you what this record shows transpired after the Latin American decision and I told you that Mr. Roig, the President of Panagra called a special meeting of his Board of Directors to consider the Latin American decision and particularly the language in the decision which I read to you.

Now, Mr. Roig had hoped, I am sure to use the language I quoted to bring Pan American around to his point of view—that is, the Grace point of view. However, as it turned out he was doomed to disappointment.

Before coming to the Panagra Board meeting, the Pan American directors on Panagra decided to check in with their own Board to see how they should vote at this forthcoming Panagra meeting.

As the record in this case shows, Pan American instructed its directors on Panagra to continue to withhold approval of Panagra's filing an application for entry into the United States in its own name.

Now, mind you, Pan American took this position right after your decision in the Latin American case and in the

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[fol. 3775] face of the very clear, I think, and unmistakable language that I quoted to you.

I would like to read a few excerpts to you from the Minutes of the Board of Directors meeting of Pan American Grace which Mr. Roig called right after the Latin American decision. I think that will shed some light on just how this agreement came about. This meeting was called for the

fifth of June 1946 very soon after your decision and after a number of routine matters to be taken up by the Board. Mr. Roig brought up the question of the Latin American decision.

It says here: "The President referred to the decision of the Civil Aeronautics Board in the Latin American route case, Docket 525 and he referred specifically to the following statements in the Board's decision," and there it set forth in the minutes the same thing that I read to you.

"After that Mr. Roig stated that this meeting had been called to enable the joint owners cooperatively to enable Panagra to apply for access to the East Coast of the United States in accordance with the said opinion."

Thereupon, Mr. Garni, a Director of Grace offered a resolution to implement Mr. Roig's desires.

"Mr. Garni stated, in support of his resolution that it was the desire of W. R. Grace and Company to comply with the decision of the CAB and the President of the United States and that the resolution he was offering and which the Grace directors were prepared to vote for was intended to implement such compliance. He stated that the most satisfactory route from the point of view of the public

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[fol. 3776] interest and of Panagra, which would comply with the foregoing should be from Balboa to New York via Havana, Cuba and or Miami, Florida, as proposed in the resolution and he recommended that we apply for that route." But he indicated they might be able to work out some other route.

Thereupon, Mr. Dean, one of the Pan American directors on the Board of Panagra stated that the subject matter of Mr. Garni's resolution had been discussed at great length at a meeting of the Board of Directors of Pan American Airways Corporation held on the previous day and that after such discussion the Pan American directors had unanimously adopted the following resolution which I would like to read:

"Resolved that in the opinion of this Board, the Board of Pan American Corporation, an extension of Pan American Grace Airways from Balboa to Miami or New York would not be in the best interests of Pan American Grace

Airways and likewise would not be in the best interests of this corporation, meaning Pan American, or its stockholders, and that consequently, the representatives of this corporation on the Board of Pan American Grace Airways, be instructed not to take action authorizing an application for such an extension by that company."

Now, you will note that there is nothing in that resolution about the public interest which Mr. Friendly and Mr. Gesell were talking about and there is nothing there about dumping passengers at Balboa.

Mr. Ryan: What is the date of that?

Mr. Schneider: That is the fifth of June of this year.

Chairman Landis: Would you read that again?

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[fol. 3777] Mr. Schneider: The resolution in its entirety?

Chairman Landis: That portion you read.

Mr. Schneider: "Resolved that in the opinion of this Board an extension of Pan American Grace Airways, Inc. from Balboa to Miami or New York would not be in the best interests of Pan American Grace Airways Inc. and likewise would not be in the best interests of this corporation or its stockholders, and that consequently the representatives of this corporation on the Board of Directors of Pan American Grace Airways be instructed not to take action authorizing an application for such an extension by that company."

Now, this resolution talks about the best interests of Panagra and the best interests of Panagra and it is apparent that there was no change of heart on the part of Pan American after the Latin American decision insofar as permitting Panagra to come to the United States in its own name.

Now, I say that this resolution displays the same arrogant domination of Panagra and the same complete disregard of the wishes of this government which Pan American has always displayed on this question.

Now, reference was made this morning about fiduciary relationships and I don't want to debate with Mr. Friendly or with Mr. Gesell on that subject but I would like to raise the question of whether the Pan American directors on Panagra don't have some fiduciary relationship to Pan

agra separate and apart from the corporation which sends them there as their nominees.

Mr. Dean, after offering that resolution went on to state

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[fol. 3778] that as a matter of record he wished to make it clear that in the opinion of Pan American the portions of the CAB decision which were quoted by Mr. Roig had not been approved by the President and that the President had merely approved the Board order and the certificates.

Mr. Dean on behalf of Pan American directors and Pan American Airways, Inc. urged that consideration be given to an arrangement whereby Panagra's planes might operate over one or more of Pan American's routes north of the Canal Zone.

Mr. Gurni's resolution was put to a vote and it failed of passage on a four to four split.

Then the discussion went on of Mr. Dean's proposal relating to Panagra's planes flying north and the Grace directors said they would like to think it over and there the meeting adjourned.

Now, from a reading of these minutes it is apparent that Mr. Roig didn't get from Pan American what he had hoped for.

Instead he was turned down again, but this time the matter wasn't dropped at that point because Pan American this time offered to work out with Panagra an agreement along the lines of the present contract.

Remember that they never offered such a contract before and that Grace had never asked for such a contract before. The whole history of these two companies shows nothing of a contract of this nature. It does show an interchange proposed by Pan American many years ago but vehemently turned down by Mr. Roig at that time.

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[fol. 3779] Mr. Roig stated quite frankly to Pan American that he would not go along with any such agreement as this unless he saw it spelled out in detail first. He had too much experience, he said, with Pan American to agree on something in principle without seeing the details worked out first.

The details were worked out by Mr. Gesell and Mr. Friendly and the agreement was submitted and approved.

Now, let me say this for Mr. Roig. He did a magnificent job at the hearing trying to sell this agreement and I am sure that he is convinced that it was the best deal that he could get under the circumstances but let me repeat "under the circumstances."

Obviously Mr. Roig was not going to admit at the hearing that there was anything wrong with the agreement.

As he said at the hearing he had been beating his head against a stone wall for years trying to get Panagra into the states in its own name but without any success but no one will convince me that Mr. Roig's attitude toward this agreement isn't to a great extent colored by the realization that this is all he can get out of Pan American.

Now, to support that statement, let me read to you one or two questions.

Mr. Lee: Mr. Schneider, excuse me, my question may come out of the fact that I missed some of the first of your oral argument. What is it you are trying to prove? The attitude? And if so, does that apply to this, and how?

Mr. Schneider: The way I led into it was this way, Mr. Lee: I stated that Mr. Gesell and Mr. Friendly were contending that the public interest question that is involved

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[fol. 3780] here had been determined within the four corners of this instrument and I contend that that is not so, that you must go beyond the instrument, itself, to take along at the circumstances which gave rise to the agreement, the parties to the agreement, the provisions of the agreement and the likelihood of their being worked out in a harmonious and satisfactory way in the light of this background because when you look at the agreement you will find that it isn't a self executing document.

I want to cover that later in my argument but I had been painting a picture of the history of this thing against which the agreement must be measured as to whether it is in the public interest.

At least, that is my contention that it must be construed in that light.

This is on page 476 of the transcript, when Mr. Hickey of the Department of Justice was cross examining Mr. Roig.

"Q. In other words, your belief in competition amounts to this, that you are willing to sacrifice a competitive opportunity for the sake of getting Panagra's line extended to the United States, isn't that correct?"

"Mr. Gesell interpolated there that this was argumentative.

"A. That is not correct, Mr. Hickey and I really don't feel it is a fair question. I don't consider that I am sacrificing something that I never had, that I have worn my hair grey and my bones bare trying to get a great deal of the effort being not only with Pan American Airways but with the Civil Aeronautics Board and

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[fol. 3781] the United States Courts, and have been at every stage of the game refused.

"Now, how could you say in the light of my performance and my efforts to get this route, that I am now prepared to sacrifice if for what you say in eliminating competition. I can't agree with that. I consider it an absolutely unfair conclusion."

A little bit farther down the page on 477 Mr. Hickey asked this question:

"Q. I quite agree that your efforts have been vigorous and that you have made every effort to obtain it. I am merely stating that what you have done now you have merely precluded yourself from making the effort that you have made so arduously in the past. That is a fact, is it not?"

"A. I expect I have precluded myself for the time being but there comes a time when you just can't bang your head against a stone wall forever. When everybody who has the authority to give you what you want refuses to give it to you you have to do something to improve the competitive position in the rest of your picture."

That is a very frank statement.

In other words, Mr. Roig was willing to take a bird in the hand rather than two in the bush, if I may be permitted

to that figure of speech, which doesn't add to the dignity of the Supreme Court.

The Branniff threat was immediate. The Supreme Court remedy was remote and it depended on subsequent favorable action by you.

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[fol. 3782] Mr. Roig faced a dilemma and I can sympathize with his position but the "voluntary" solution of a dilemma does not automatically carry with it the label of public interest. That has to be earned.

Now, as I have stated before, you can't divorce this contract from its background. They go hand in hand. You must remember that those who now profess to be offering this contract as a public interest solution were engaged in a bitter struggle only yesterday and will be again tomorrow if you disapprove this contract.

This contract is full of provisions which are left to future negotiations and agreements by the parties.

Ask you if you have any assurance when you read this contract, in the light of this background, any assurance that these parties can agree on these points, points which are vital to the satisfactory performance of the contract.

The contract as I have said is not self-executing, it is pregnant with possible differences of opinion, and the arbitration provisions of the contract are no solution.

Arbitration was available to the parties in the past, it was not used or successful.

Public Counsel will probably spend a great deal of time discussing the detailed provisions of the contract and I haven't time to go into them except to mention only a few.

In my opinion this agreement by its terms will place Panagra in the position of engaging in air transportation between Balboa and Miami without possessing a certificate covering it. If this type of a contract is approved without

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[fol. 3783] proceeding under Section 401 of the Act then I am afraid that the route certificate concept of Section 401 goes out of the window.

Now, the question was raised this morning as to who is holding out to the public, who is the party holding out as a common carrier to the public, and Mr. Gesell said it is obviously Pan American.

Well, I can't agree with him. Panagra's name is on the airplane, Panagra's crews are in the airplane, Panagra's insignia is worn on the uniforms of the hostesses and the pilots. The whole show is a Panagra show except there is a sign in the airplane which says, "This plane is being operated by Pan American" and there also is in the vestibule of the Carlton Hotel, as you go into it, a sign that says, "This hotel has a liquor license" and I doubt if you have ever seen it, and I doubt if any of you ever takes the trouble saying that "This airplane pursuant to so and so of the Civil Aeronautics Act is being operated by Pan American Airways."

Panagra's name on the contract is to be displayed on the counters of the United States. The whole agreement contemplates that the public shall think of this as Panagra. I say that comes as close as you can get to a 401 case.

Chairman Landis: That would be evidence, wouldn't it, that Panagra was really competing with Pan American?

Mr. Schneider: That would, yes.

Chairman Landis: I thought the argument was that there wasn't any competition?

[fol. 3784] Mr. Schneider: That is the external part of it. Then we come to who sells the tickets over this pseudo Panagra operation. I will come to that as to who sells the tickets. Because the public doesn't buy the tickets on the basis of the airplane. They buy the ticket first and then see the airplane, I think.

I also believe that this contract presents Section 408 problems which neither Pan American nor Panagra have presented for your approval.

If the Board can get around the section 401 problem and find that no new air transportation is involved then it seems to me that you have to hold that the contract involves a lease of a substantial part of Panagra's properties, and that is a 408 problem.

That requires approval under Section 408, and no application for approval of such a lease of a substantial portion of Panagra's properties has been filed with you. But the big thing in the problem that bothers me, and this goes to the heart of the whole thing and this, I think should

bother you, is the provision in Section 13 of this contract whereby the parties agree to negotiate in the future a pooling agreement for United States Buenos Aires and United States Montevideo traffic.

That is Section 13 of the contract.

You will recall that Pan American and Panagra are now on paper at least to compete for traffic between these points in South America and the United States.

This competition which because of the San Juan cut-off now favors Pan American will become more acute if Pan

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[fol. 3785] agra is extended to Miami or New York or it should become so.

This provision for a future pooling agreement in my opinion fowls the whole contract because it reveals the type of economic thinking these parties are capable of in this day and age of competition, and it indicates to me how they will conduct themselves under this contract if that kind of provision is in there.

It is true, you will get a chance to look at that, you will get a chance to turn it down but doesn't it give you some idea of how the rest of the contract will be performed.

Talking about negotiating a pooling agreement whereby they will arbitrarily allocate to themselves certain portions of the New York to Montevideo, New York to B.A. traffic without regard to the competitive advantages which either party may enjoy by way of superior equipment, shorter mileage, more scenic route and so forth, and they forget all of that and say, "We will pool the traffic and arbitrarily allocate between ourselves."

Why? I say the answer to that question is so that they may fortify themselves to meet the competitive threat of Braniff. They are agreeing in advance not to compete with each other, I say, between B.A. and New York. They want to conserve their energies to turn them loose on Braniff.

Braniff has had some experience in the United States competing with big fellows—American, TWA, and Eastern. We have been competing with those fellows for 10 years or more and we are not afraid of competing with Panagra or Pan American down there.

[fol. 3786] What we don't want to have to do is to have to compete with Pan American or with W. R. Grace and Company, in a combination of Panagra with the ghost of Pan American always standing behind them.

We will meet anybody down there in free and open competition but that is not what this argument calls for.

Chairman Landis: I thought you were arguing for an extension of Panagra up to the United States?

Mr. Schneider: I may very well be doing that and I may say that I think it would be more in the public interest to extend Panagra into the States.

Chairman Landis: That would really give a good show on the West Coast.

Mr. Schneider: Yes, sir.

Chairman Landis: But I am trying to get your argument. I don't quite get it. You argue: (1), that Panagra should be extended to the United States. That is really the solution to this problem.

Mr. Schneider: No, I haven't come to that point yet. I am going to say that later.

Chairman Landis: Well, it looked to me as if that was implied in your other argument.

Mr. Schneider: I am saying that this agreement will merely strain competition.

Chairman Landis: Mr. Roig had taken that position.

Mr. Schneider: That is right.

Chairman Landis: He urged it upon the Board, Pan American withstood that and offered him something which was less to his liking than the extension of Panagra.

[fol. 3787] Mr. Schneider: Mr. Roig doesn't agree that it is less to his liking. That would be unfair to him.

Chairman Landis: I don't think so according to the testimony there.

Mr. Schneider: I don't think he would agree with that statement. That is his testimony, yes, sir. It is subject to interpretation.

Chairman Landis: His testimony more or less is to the effect that I tried for a long time to get this thing.

Mr. Schneider: That is right.

Chairman Landis: "I couldn't get it so I agreed to this agreement which I think is beneficial."

Mr. Schneider: That is right.

Chairman Landis: "Which I think is beneficial to Panagra" and I don't just get the theory of what you are trying to get at when you say the fact that Mr. Roig didn't get everything he wanted makes this thing against the public interest.

Mr. Schneider: Sir, I have just about two pages left here and I think that at the completion of that I think I can bundle it up and then come back to your question if I haven't satisfied it.

Chairman Landis: I would like to get it.

Mr. Schneider: All right.

Now, I said I believe before your question that we had no fear of competing with Panagra out in the open or Pan American out in the open, the way we compete with other fellows in the United States right out in the open but I say

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[fol. 3788] under this agreement there is a combination whereby they agree among themselves in effect not to compete with themselves but to turn all their guns loose on us and the foreigners.

Now, these parties don't even compete with each other now and I don't know for the life of me where Mr. Gesell got the information which he gave to some of you people this morning because if you will go and read Mr. Roig's testimony and Mr. de Groot's testimony that was given up in the Wardman Park hearing a week ago, it is absolutely contrary to the statements he made that they maintain separate offices down in B.A. and that they maintain sales agents in the United States.

The testimony is the reverse of that there.

In Buenos Aires today the only Panagra ticket that you can buy effectively is through a subsidiary 100 per cent owned by Pan American, a ticket corporation, 100 per cent owned by Pan American, which undertakes to sell Pan American and Panagra ticket and for that statement I rely upon the testimony of Mr. de Groot given last week, in another record to be sure.

Now, if that is competition then Eastern Air Lines here in Washington might just as well give up its office and let American sell its tickets to New York or we in Chicago might just as well give up our office and save the money and let American sell our tickets to Dallas.

That is not the type of competition that we are used to, that you are used to, or the type of competition that Panagra is going to be exposed when we get down there.

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[fol. 3789] So far as the United States is concerned Mr. de Groot stated that their sales force in New York consisted of him and his people in the general office of Panagra in the Chrysler Building.

There is no Panagra office on the street. There is no Panagra salesman out selling tickets on the streets in New York. He admitted that under cross examination.

The tickets are sold by Pan American.

Now, I would like to conclude: now mind you before I conclude I have not said one word about diversion from Braniff. I stood before you yesterday and admitted to you that as far as I am concerned, personally, I think diversion is one of the weakest arguments a person can make down here on a public interest question, and I am not going to argue to you that this should be turned down because it is going to divert from Braniff.

Braniff hasn't even started yet. I couldn't even measure the amount of diversion but it does strike me that when you put us into Havana you had some misgivings about our route and were trying to strengthen us by a connection with National.

To the extent that that is going to be fulfilled if this agreement plus the [Pan] American domestic route case is going to be fulfilled I don't know we will have to take our chances on that but I am not going to make a diversion argument on that now.

I think the public interest things I have talked about now far outweigh any diversion from Braniff.

The thing is a lot bigger than that, so I would like to

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[fol. 3790] conclude and close my argument not as counsel for Braniff so much but as an individual.

In my opinion this contract does nothing to cure the basic difficulty between Grace and Pan American which has constantly plagued Panagra and the development of Panagra. Rather, I think that Panagra should be made a completely independent company and allowed to work out its own destiny.

If they can come down here and prove under Section 401 of the Act that public convenience and necessity requires the extension of Panagra to the United States that is what you should do. But I think American Air Transportation, American flag air transportation requires that this Board find somewhere within this Act the power to make this company a truly independent company, and we are not afraid to compete with them down there if they are so made.

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[fol. 3791] Chairman Landis: How are we going to do that?

Mr. Schneider: Sir, I wasn't in the 779 case, so I am not too familiar with all the legal problems involved there.

As I said earlier, I regret that the Board couldn't find in the Act the power to do what they set out to do, that they went off on the procedural point which contributed nothing to the basic difficulty.

And I would suggest that the Board should themselves—

Mr. Ryan: You referred to that before. What do you mean by "procedural"?

Mr. Schneider: You construed your powers under the Act not to permit you to extend Panagra to the United States and never got to the merits as to whether they should be extended.

The 779 case never went on to the merits as to whether there was a public need to extend Panagra.

Mr. Ryan: It is pretty substantive. Whether we have the power is pretty substantive.

Mr. Schneider: I mean, you didn't get to the purpose of the investigation as to whether there was a need or wasn't a need. You went off on the language of power.

Chairman Landis: Have you read Judge Frank's opinion in that case?

Mr. Schneider: Yes, sir.

Chairman Landis: What did you think of it?

Mr. Schneider: Not having all the background of 779, it left me quite confused.

Mr. Ryan: It would have left you confused anyhow.

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[fol. 3792] Mr. Schneider: Let me put it this way: Were I in your shoes and had Judge Frank's mandate remanding the opinion, I am inclined to think I would call him up and say "Come again", because I am not quite sure what he does want you to do.

What he does do is to recognize with you the unhealthy situation that did exist.

Chairman Landis: Even assuming—let's take your assumption—that it is an unhealthy situation, but if you take the other assumption that you can't cure it, that there is no power to cure it under the Civil Aeronautics Act, how does this worsen the situation if it helps a little bit?

Mr. Schneider: I don't think it helps a bit.

Chairman Landis: It seems to me that you have the burden of proof to show that.

Mr. Schneider: I will accept that burden.

Chairman Landis: Other than the mere fact that it builds up Panagra's service a little better so it can compete with Braniff, which you admit?

Mr. Schneider: Mr. LaRoe makes a fine argument here today in regard to carrying passengers all the way through with the least inconvenience. That is true and it should be done if possible.

But with this, on paper, competitive situation that we have now at B.A. and Montivideo between Pan American and Panagra which isn't competition at all—they are not fighting each other on the streets trying to sell passengers down there—Panagra has delegated to Pan American B.A. the sale of its tickets.

That is the situation today between here and the Canal

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[fol. 3793] Zone. How will it be worsened? You bring them up to Miami under this agreement and they delegate again to Pan American the sales under this thing.

Mr. Roig says "If Pan American doesn't sell tickets, I will abrogate the contract." How are they going to find

out? Pan American is getting seven passengers this way for every one that goes that way (indicating).

Now, if my competitor is carrying 7 to 1 ratio with me I get out of his ticket office and I open up one of my own and I hire some salesmen.

Now, why does it get worse? It gets worse when you get to Miami because the same thing that happens here happens when you get to Miami.

The same small office will decide which passengers to this way and which to that way.

And you have got the same thing going on in New York and that isn't competition in the public interest as this company knows it.

Chairman Landis: That is happening now?

Mr. Schneider: It will be intensified. They haven't even got a chance at it in Miami today. Pan American isn't making any effort to sell any tickets at Miami over Panagra. There is no word of evidence about that. We talked about the ads this morning. The ads that come out of the New York office are put out by Pan American World Airways System.

Mr. Friendly: I think we should have these ads before we talk about them, as well as some of this other record that Mr. Schneider has been quoting from.

Mr. Schneider: If I am wrong on that, I stand corrected.

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[fol. 3794] But I thought you were referring to the Pan American World Airways System map.

Chairman Landis: We don't want the record misquoted.

Mr. Schneider: If I am wrong, I want to be corrected.

Chairman Landis: But the point I am trying to get at: I am trying to get at how it worsens the situation. You take the assumption that the thing is bad. Take the other assumption. You can't correct it by forcing the extension of Panagra up to the United States. What is there in this agreement that is bad?

Mr. Schneider: It freezes for 99 years. It seems to me it is just an abdication to expediency. The through service argument, so far as I am concerned, isn't that strong. That you must swallow all the other things.

Chairman Landis: We can control that. We can give them a three-year certificate so far as that goes.

Mr. Schneider: That is right.

Chairman Landis: Why not try that?

Mr. Schneider: I think that is a good idea. If the through service argument is so convincing to you, I say try that.

Chairman Landis: In other words: take this provision of the contract, 99 years, and say 3 years and after 3 years come back and we will see whether we continue it.

Mr. Schneider: And knock out Section 13 and knock out some of the other bad provisions, then we will draw a new contract.

Then we will have to come back and have a new hearing perhaps but we were approaching this contract, sir.

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[fol. 3795] Chairman Landis: But this Board has not merely a plain veto. It doesn't have to veto the whole contract. It has a partial veto and can pick out these things in the contract that it says are against the public interest and say "no" on those and say "yes" to the others.

Mr. Schneider: Approving to the parties knocking out of the contract the following provisions?

Chairman Landis: Yes.

Mr. Schneider: It may be.

Chairman Landis: And looking at it that way isn't there something there that is good and that ought to be saved out of this threatening shipwreck?

Mr. Schneider: Mr. Friendly answered that question on cross examination.

I think I have the provision here. There are provisions in here that are good, at least they contend they are good, about training, they are good about maintenance; they are good about the sales arrangement.

In cross examination, Mr. Friendly was asked the question if they were to get the States in their own name would continue these maintenance and sales and training arrangements that you now perform to your associate company, Panagra, and Mr. Friendly said, "That would be silly to do that."

Chairman Landis: When was that?

Mr. Friendly: Could you give us the page?

Mr. Schneider: Yes, sir. I will read it to you. On page 513 of the transcript, question by Mr. Gesell of Mr. Friendly: "I wasn't quite clear, Mr. Friendly as to whether or not you were saying that in the event Panagra were

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[fol. 3796] to come to the United States on its own route, Pan American would continue or discontinue its activities on Panagra's behalf in the nature of its sales agency and engineering services and other assistance in view of the competition which would be created."

"A. Well, I can only say, Mr. Gesell, what I would recommend and what would seem to me to be likely. As to any sales activity or assistance of that sort, I would recommend in the strongest possible terms that that be discontinued. I don't see how we could be in paralleling competition with Panagra between the United States and Balboa and be acting as its sales agent."

Now he doesn't say anything about their not being in competition between B.A. and New York.

He goes on: "I would also recommend that we discontinue any other service which involved the slightest sharing of confidential information or anything of the sort. I think the only things that we might continue would be the type of things that we have done and are doing with our competitors such as this agreement which has been marked with PA Exhibit 32 which is an agreement for radio and so forth, with Eastern at San Juan, for sharing certain operating facilities with Eastern."

"I don't mean to say that we would have any special animus against Panagra certainly, and we would not have any against anyone else, but I don't think we could, in the interests of proper competition, or should do anything more."

If they say they are in competition between B.A., Monti-

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[fol. 3797] video and the United States, then why isn't Mr. Friendly's statement equally true today? To make that statement to be true today then, they must agree that they are not in competition by agreement.

You can't have one without the other.

Chairman Landis: I don't suppose the contention is that they are not part of the system today?

Mr. Schneider: I may have to go to the other record made last week to answer that one, sir. I asked Mr. Roig last week on cross examination in the Domestic Route Case, "Do you consider Panagra to be a truly independent corporation" and he said "I do."

He has always contended that. He contends it most vigorously. No one fights even harder for Panagra and its welfare than Mr. Roig does and no one is more appreciative of the obstacles that he has had to face than Mr. Roig is.

Chairman Landis: Then to go back to my other question: If you assumed that they are not in competition, and that they can't be put in competition, why isn't that a good agreement anyway?

Mr. Schneider: I can't concede, sir, that they can't be put in competition.

Chairman Landis: I would appreciate advice on that point.

Mr. Schneider: Well, perhaps we might try to follow the course laid out as well as we can interpret it by Justice Frank.

Chairman Landis: Well, yes. I mean, even if you assume Judge Frank is right, and that eventually the Supreme

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[fol. 3798] will uphold Judge Frank and allow Panagra to apply in its own name or permit the Board somehow to force that extension, the wheels of Justice grind pretty slowly and the scene may have completely changed as of that time.

That is what I asked Mr. Gesell this morning. I pointed out to him that it may be a question you are up against at this time and this time is your last shot at it.

Mr. Schneider: Maybe it is a question for the other Department down the street. If this were not an industry regulated by the CAB, I think the Antitrust Division of the Department of Justice would long since have done something about this, if those were two aluminum corporations or something like that, and if what we are saying here is true, and that that record is brought out in the Department of Justice we know well we will have a remedy then. Of

course the record would have to be made that was made in 779.

Chairman Landis: If anything really operates slowly, I think the wheels of justice under the Antitrust Law operate even more slowly than even this Board.

Mr. Schneider: Then you must weigh that, sir, against the immediate emergency and expediency of getting this fellow on to the same plane at Balboa.

Now, if that is so vital, so emergent, then I can't answer your question, sir, because you just pose a situation that makes it impossible for me to put up something on the other side.

Chairman Landis: To take your other illustration, your other point, approval of this agreement, would that, in your judgment, mean that the Department of Justice, be estopped

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[fol. 3799] from moving somehow or other under the Sherman Act?

Mr. Schneider: Section 412 of the Act gives a great deal of immunity to the contract.

Chairman Landis: To the contract?

Mr. Schneider: Yes, sir.

Chairman Landis: But approval of the contract would not necessarily carry approval of the organization.

Mr. Schneider: No, not the organization, but it is not so much the organization as the things that they are doing under the organization that would be in violation.

Chairman Landis: It seems to me your contention is that the real evil results in the organization.

Mr. Schneider: No. I think that is what starts the wheel rolling. The fact that there is a 50-50 split here just makes an impossible situation, and then each of them has a negative control.

Chairman Landis: Well, we will admit—I mean I start from the base that you lay and I try to get further and I try to find out the viciousness that inheres in this contract itself. You pointed to two things, the 99-year term which you say is too long, and the Section 13 which you say is a mandatory obligation, although it is a general permissive idea, and it does read in a mandatory language.

You say that is bad. Well, those can be knocked out if there is something good left.

Mr. Schneider: I think we would have to stay here and go through each single paragraph and spell out the bad provisions. I skipped over most of those detailed things

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[fol. 3800] having read Public Counsel's brief and in my time not being able to get to it. I mean we didn't all want to repeat the same things.

I was trying to lay a background. Perhaps Mr. Gambrell will go into that, or Public Counsel.

I think on your examination after listening to other counsel, you will find out something. I am disturbed by Section 13. That is the one that bothers me more than anything else.

Not because you won't have control, but it just seems to me to indicate the type of parties we have here. I can't conceive of any domestic air carrier even suggesting such a thing and for the life of me, I don't know why they include it in the agreement.

Chairman Landis: They may have been influenced by the Scandinavians.

Mr. Schneider: I asked the question at the hearing and I didn't get a satisfactory answer to it myself.

Mr. Ryan: Mr. Schneider, I have a question.

Mr. Schneider: Yes?

Mr. Ryan: As I understand it, your statement was that Mr. Roig and the management of Panagra are very vigorously pursuing the interests of Panagra, and that at the same time you make the point that in the working of this agreement Panagra will suffer because its traffic potentialities will be limited, by virtue of the Pan American interests.

Mr. Schneider: That is right.

Mr. Ryan: Is that true?

Mr. Schneider: Well, I can only say what Mr. Roig is doing for Panagra.

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[fol. 3801] I can't say what the rest of Panagra is doing, but I will say categorically that Mr. Roig is always working for the best interests of Panagra.

Mr. Ryan: What I am wondering is how do you explain the fact that Pan American has been able to fool the Grace people and other people here into a contract like this that is going to be so hurtful to them because they are more deeply interested than even you are?

Mr. Schneider: All I can give you is the excerpt I gave you. It bothered me. I asked the question. Mr. Hickey of the Department of Justice asked the question and Mr. Roig stated just as I read to you, "I have been beating my head against a stone wall and wearing my bones bare trying to get what I should get and I can't get it. Why should I compare that with this contract? I want this contract because it is what I have now. I have got that in my hand and the litigation in the Supreme Court and everything else with nobody helping me. That is too remote. You can't compare those with each other. I have got a contract and I think it is a good contract."

And he did his best to sell it. He never hedged a word on it. He thinks it is a good contract, but I say: Realize or think for a minute why he thinks it is a good contract in the light of that background.

He has no alternative.

Mr. Ryan: You think he has no alternative?

Mr. Schneider: He thinks he hasn't.

Mr. Lee: Mr. Schneider, you put considerable emphasis on there being no competition under this contract. Do you think the situation is the same that would put as much

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[fol. 3802] importance on that as it would have before the Board certificated Braniff to these points in South America?

Mr. Schneider: Would I put as much significance to it?

Mr. Lee: Yes. Do you think the competitive argument which you made, that they are not competitive, is as important as it was before the Board certificated Braniff to South America?

Mr. Schneider: I would say it was less important. I would say before you certificated Braniff to South America you had only one possibility of providing competition between these air carriers, and that was between Panagra and Pan American. You waited for that situation to jell in 779 in the Supreme Court and it didn't, and Braniff was ex-

tended to South America. Now you have at least the assurance that Braniff on the one side will compete with this Panagra-Pan American combination so I would say the argument about having competition between Pan American and Panagra is perhaps not as strong today as it was then because you are going to have American-flag competition now whether you like it or not.

Mr. Lee: How important is it now—since, you see, United States is assured of two United States Flag carriers, to certain important points in South America—how important is that argument in the light of this agreement?

Mr. Schneider: We aren't going to be able to compete too effectively for New York traffic if Pan American is already in New York with one-carrier service and Panagra is, too.

Mr. Lee: Does that make any difference to you?

[fol. 3803] Mr. Schneider: Yes. The only way we can compete for New York traffic is in combination with National.

Mr. Lee: I mean this agreement,—how does that make any difference to you?

Mr. Schneider: Any difference to Braniff?

Mr. Lee: Yes.

Mr. Schneider: That goes to the basic question as to whether Braniff has any status to argue here today at all because I am not arguing that this should be turned down as any protection to Braniff. I say that this is adverse to the public interest.

Mr. Lee: You made two legal points. One was that this was a case under 401. Do you think a decent legal argument could be made on the other side, from the way you argued?

Mr. Schneider: Oh, yes.

Mr. Lee: Or is that a question that could—

Mr. Schneider: Many of these questions are black and white. I made the black one and Mr. Gosell made the white one this morning.

As to whether he made a decent legal argument is perhaps—

Mr. Lee: I mean you don't think that is a foregone conclusion, or that legally there is just no other side to it? It could be decided either way?

Mr. Schneider: Yes, sir.

Mr. Lee: What about your application of 408? You make the legal argument that this question should come under 408. Is that in the same category?

Mr. Schneider: The first one is gray, but the 408 question I would say is distinctly more on my side.

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[fol. 3804] Call it a very light gray. I don't see how you can get away from it—if you say there is no 401 problem, how can you get away from the fact that this is a loss of a substantial part of Panagra's property.

Public Counsel in his brief goes to some length to point out the percentages involved of equipment and so forth.

Chairman Landis: Why shouldn't that issue be decided in this proceeding?

Mr. Schneider: We all contended that it should have been at the very opening of the hearing, sir.

Chairman Landis: Is it simply because of the lack of some technical rule?

Mr. Schneider: There has been no application filed under 408 asking for approval of that specific point.

Mr. Friendly: Oh, Mr. Schneider. That can't be left unchallenged. The application specifically says, Mr. Chairman—this is the application of Pan American Airways:

"Wherefore, Petitioner respectfully prays that the Board make and enter an order approving the aforesaid agreement between PAA and Panagra dated July 30, 1946, under Section 412 of the Civil Aeronautics Act, and such other sections of the Act, if any, as may be applicable thereto, and that the Board shall grant such other, further and different relief as to it may seem just and proper."

Certainly, we aren't back in the barren park stage where failure to make specific reference to a section is fatal.

The 408 problem that I dealt with relates to a new contention made just within the last couple of weeks, that an application should have been filed not only by Pan

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[fol. 3805] American Airways, Incorporated but also by Pan American Airways Corp. We say that is wrong. If we are wrong about that, it is a technicality which can be easily remedied.

Mr. Schneider: Well, we had this battle out at the pre-hearing conference.

Mr. Friendly: Not this one.

Mr. Schneider: And the 408 question has been fought through most of this case. I don't like to rely upon a catch-all phrase like that for an application that the Act says is mandatory under 408.

Chairman Landis: What is the substance of the issue that was presented under 408 and 412?

Mr. Schneider: You have got the Section 408(b) provisions. You have got to make a determination there whether there is a monopoly involved and if there is a monopoly, whether it jeopardizes other air carriers.

There are a lot of considerations that are mandatory under Section 408 that are not under 412.

Chairman Landis: Do you then contend that somehow or other this approval would make a monopoly?

Mr. Schneider: No, sir. I think you have got a 408 problem here that you have got to face and I am suggesting that you look at the contract in the light of 408.

Chairman Landis: Can't you help us look at it? You say there is no problem. You are not making the contention.

Mr. Schneider: I will say this: That if you look at this contract from the standpoint of 408 and the public interest attached there, you will come out with the same answer as

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[fol. 3806] you would under 412 if you adopt my reasoning but what I would like to see is an opinion come out that you don't have to go to court afterwards.

Let's cover all the sections of the Act that are applicable and I think that is what Public Counsel has tried to do, so that there will be no reversible error here.

Mr. Ryan: Section 408 is practically the same as 412, is it not?

Mr. Schneider: That is right, except the mandatory provision about monopoly under 408; that isn't in 412.

If you find there is a monopoly, then you must disapprove. There is no such provision under 412. Public interest determines the direct competition, as in 411.

Mr. Lee: I have trouble getting the weight of the argument as you see it. You argue that it is against the public

interest to approve this agreement. Suppose the Board just assumes that everything you say is correct. Let us just assume that the whole system, Panagra and Pan American, is one air system.

Just assume that it is one system. Wherein is the public interest damaged as against the situation as it is now?

Mr. Schneider: Well, it isn't one system legally and to make it one system you would have to have a merger and many of the arguments that Mr. Gesell raised this morning to the public interest of a merger.

Now, either let's put these companies together and make them one, or let's pull them apart.

Mr. Ryan: You are going to the legal argument. What about the substance of it and the effect upon public in-

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[fol. 3807] terest?

Mr. Schneider: Well the substance is this: One day we face a situation where they say we are one. And the next day in another type of situation they say we are independent. Now, let's find out what they are.

Mr. Ryan: That might satisfy you legally to find it out but the man with the suitcase, where is that going to affect him?

Mr. Schneider: I think the man in the suitcase who reads the one thinks they are one today.

Mr. Ryan: What difference does it make if he gets the rides?

Mr. Schneider: Maybe he would get a better ride.

Mr. Ryan: We assume that Braniff is going to get down there sometime.

Mr. Schneider: Not from New York. That is where the great majority of the traffic comes from.

Chairman Landis: I don't see where you have eliminated competition in the first place. The assumption competition doesn't exist, then, you say you have eliminated competition?

Mr. Schneider: You have eliminated the chance of making it competitive. This competition that we have now should be made effective under this Act, I think.

The parties have chosen to make it ineffective and they have chosen to make it ineffective now for 99 years.

Mr. Branch: Mr. Schneider, didn't the Civil Aeronautics Board, in the Latin American decision which presumably was approved by the President of the United States, because the law says we can't issue those decisions unless the

[fol. 3808] President approves them, didn't the Board in that decision indicate that it was concerned about the public interest in this matter when it said that these people ought to get together and make it possible for Panagra to come to the United States in its own name?

Mr. Schneider: That is right. I think so, and Mr. Reig thought so.

Mr. Branch: The Board said that in its opinion?

Mr. Schneider: That is right.

Mr. Branch: And the President didn't disapprove it as far as you know, did he?

Mr. Schneider: No, sir.

Mr. Branch: So presumably that was the country, wasn't it?

Mr. Schneider: That is the way I interpreted it.

Mr. Branch: And in that same decision, in which the Board said that, it also granted the certificate to Braniff and to Chicago and Southern, didn't it?

Mr. Schneider: That is right.

Mr. Branch: But it still kept that in the decision, didn't it?

Mr. Schneider: That is right.

Mr. Branch: That is all.

Mr. Ryan: Therefore by implication, the Latin American decision as approved finally, and finally issued, contemplated two additional services to Latin America, one, Panagra to the United States; the other Braniff Airways to the South?

Mr. Schneider: Braniff Airways so read the opinion. He

[fol. 3809] fully assumed that Pan American and Panagra would get together and file an application in Panagra's name to the United States; Mr. Dean, the Pan American director on Panagra, said he didn't so construe it.

Mr. Ryan: So that would be your answer, then, to the contention made earlier in the day by, I think, Pan Ameri-

can, that the situation had radically changed since the Latin American decision had been announced, namely that there was now—I think it was Panagra's representative—namely, that now there had already been competition put into South America and it was unnecessary therefore—that is the way I interpreted it—unnecessary therefore to consider that there was a great need for any additional competition between these two parts of the Pan American system.

Mr. Schneider: Well, I think that they have not met the language in your decision by this contract.

Mr. Branch: Mr. Schneider, just following up the questions I asked you a moment ago, which were predicated on the assumption that the Board must have thought it was in the public interest to make such a suggestion in its public decision which was approved by the President, then I want to ask you if, now that Panagra, which has made its very diligent fight for years to try to get in, has gone into this agreement, it would seem that Panagra has given up, and that there probably would be no more chances for Panagra to get into United States under its own steam. Isn't that right?

Mr. Schneider: Yes. We asked those questions of various witnesses, and although there is nothing specific in the agreement on the point it was conceded by the witnesses for the applicants to whom the question was addressed that presumably during the period of this agreement, Panagra would not apply for access to the United States.

Chairman Landis: Supposing Panagra was a completely independent company without any Pan American ownership in it, and it had made this agreement with Pan American, would you still oppose it?

Mr. Schneider: I would have to look at that again. I would be worried still about the 401 problem, as to where that leads us in trackage rights in this whole industry. This is not an interchange, you see. Interchange is one thing. This is trackage rights where one carrier goes up over the other fellow's. There is no reciprocal part to it.

Chairman Landis: It is not uncommon in other fields of transportation, though, is it?

Mr. Schneider: As was pointed out here this morning, there is the question of the cars hooked on to the locomotive, and here it is all one and the same thing. I don't say that we can't work this problem out. We probably have expanded this map to such an extent, or will soon have, that we are going to have to be hard headed about some of these problems as Mr. Warner said several years ago in one of his opinions.

Chairman Landis: Yes, a very interesting dissent, Mr. Warner's, in that Northwestern case.

Mr. Schneider: That is right.

Chairman Landis: Which doesn't seem to be picked up by the industry at all.

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[Vol. 3811] Mr. Schneider: As long as there is a chance to get a new route, sir, we are not going to solve these problems.

Chairman Landis: That is exactly it. Maybe the Board ought to be a little tough about the new route situation and get the industry to think along different lines.

Mr. Branch: Maybe the time is nearer than it seems.

Chairman Landis: We might clear our docket that way.

Mr. Ryan: Could it be possible, Mr. Schneider, that Pan American may have read the Latin American decision, and seeing that there had been no majority for any competition into South America, may have concluded, that there having been competition put into South America by action of the President, the majority of the Board probably would not look with great favor, when the time came, upon putting a third competition into Latin America?

Mr. Schneider: I can't answer that question, Mr. Ryan. All I know what Pan American thinks about is contained in their minutes where they said "We don't think it is in our best interests to let Panagra apply."

What went on beyond that, I can't answer that honestly.

Mr. Ryan: If it should be decided that the better way to go is to turn down this arrangement presently presented to us and to seek by one way or another, to get Panagra extended as an independent carrier in one way or the other

to the United States, we will then be voting in favor of a three-fold competition to South America, the same number of carriers that we authorized to operate across the Atlantic, where the traffic, I understand, is 1/23rd, or 1/27th of what it is to South America.

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[fol. 3812] Mr. Schneider: Well, by coincidence, it would be three.

Mr. Ryan: I think I misstated that. I think it is just the opposite, Traffic across the Atlantic is 23 or 27 times —

Mr. Schneider: May I say that my answer is still the same? It is a coincidence, perhaps.

Mr. Ryan: We don't want to discourage Braniff.

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[fol. 3813] Chairman Landis: Eastern Airlines.

ARGUMENT OF E. SMYTHE GAMBRELL EASTERN AIR LINES

Mr. Gambrell: We prepared that easel map and I have duplicates.

(Handing to the Board)

I would like to be called at the end of twenty minutes. I believe I have thirty.

As we see it, there are two principal issues in this proceeding. The first is whether the public interest requires through one-plane service as proposed by Pan American and Panagra between the west coast of South America and Miami. The applicants talk about service to New Orleans, New York and so forth, but under the contracts involved in this case and Pan American's present certificates, it is clear that Miami is the only city in the United States which could be served as proposed.

The second issue is whether Pan American, the dominant air carrier in Latin America, and Grace which operates the dominant steamship line between the United States and the west coast of South America, should be permitted to increase their present degree of management and control over Panagra so as to make Panagra even more completely their instrument for retraining trade and competition and for effectuating their policies in Latin American.

I will not have time to do more than outline Eastern's position on each of these issues. I may say that Eastern, as has been said before me, filed more than one document in this case. We filed a motion to dismiss for procedurally and

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[fol. 3814] substantive reasons on November 5th, and you have a copy of that, and we filed our brief to the Board on November 11th, and we filed a reply to papers filed by the applicant's on November 27th.

What I will say will be a mere high-lighting of a few of the points. This case, it seems to me, does have more legal and factual meat in it than most cases, and I believe that it has sufficient importance in itself and as a precedent for other situations, to come, that will justify the Board's carefully considering all legalities and all the facts.

Our brief of November 11th, together with the documents which we filed seeking dismissal of this proceeding, sufficiently, we think, discusses all of the major points. Pan American and Panagra have sought to give the impression that this case involves only the question of whether through plane service is better than connecting service. As a part of that effort they have insisted on calling the agreement in this case a through flight agreement, as if through service were the only thing involved.

Of course, no one could contend that connection service between any two points is more desirable than through plane service but the Board must in this case decide far more important questions than that.

Consider for a moment the tremendous scope of the proposal in this proceeding. Pan American and Panagra have repeatedly stated that the contract in question were prepared in response to a mandate of the Board in the Latin American case, and that the proposed service will fill the gap in the Latin American air transportation system which

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[fol. 3815] the Board admitted it left as a result of the Latin American Decision. The Board will recall that in the Latin American Case the Board stated that joint control of Panagra by Pan American and Grace represented an inherently bad situation and urged the parents of Panagra to cooperate to permit Panagra to file application for access to the United States.

That is the mandate to which Pan American and Panagra refer. Now, I might say there that I am not here urging that Panagra be admitted to the United States. That is easy for me to state. I am not here to say that that is the answer. I am here to say that the proposal in today's proceeding is not the answer. We take the position that Panagra, as conceived, was wrong, that Panagra, to use an old fashioned expression that Senator Lee perhaps has heard, "was conceived in sin" 20 years ago.

Now, why do I say that? Well, the Board decided the same thing regarding another proposal of Pan American over in the Mattson situation over in Hawaii. The only difference was that the Board didn't get a chance to pass upon the legitimacy of the conception of Panagra because it was conceived before the Board was conceived.

Now, I think we may as well just adopt that as a major premise in this case, that Panagra ought not to have been. Now, the question is what to do with something that came that ought not to have come. I admit that in this country we don't usually shoot those who are illegitimate. We try to do something with them. I don't think though in this case where public interest is so much at stake and the Board didn't spare any words at all when it talked about the

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[fol. 3816] Mattson combine over in the Pacific when Pan American wanted to get together with Mattson just as they did with Grace down in Latin America. The Board didn't lose any time in saying what they thought of that. Now, if that was inherently wrong in the Pacific, we have to say that that was inherently wrong down there but the timing of it was unfortunate for the Board's attention. What are we to do about it? Are we just to vendor to it? Are we to multiply it? It all adds up to the question of whether the Pan American system shall be dominant on the east coast of South America and on the west coast of South America.

As it is, we all know that they have the advantage and that the situation is unhealthy or rotten or whatever one might call it. Now, is it going to do any good to duplicate the monopoly that Pan American now has from Miami to Balboa? I don't think it is going to do any good to duplicate it there. It only reinforces and makes permanent, or

almost permanent. Pan American's right to use Panagra as a instrumentality.

It seems to me almost laughable that we have wasted a good deal of time today talking about whether Pan American and Panagra ever were or ever will be competitive. I thought the Supreme Court of the United States and most of the courts and commissions had long since held that anybody who has 50 per cent of somebody else's controls it, and I thought that when one controlled another, there wouldn't be competition between them. To my way of thinking there never has been competition and never will be competition.

Now, the Chairman has asked two or three times: Well, what are you going to do about it? I remember when I

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[fol. 3817] was in a certain law school about 25 years or so ago, they said,

"What are you going to do about a fellow who blocks in Georgia and he is misbehaving in Alabama about something the Georgia Court is interest in?"

It seems to me I heard a rather distinguished old equity professor say, "You can provide an arduous alternative".

Now, maybe there can be an arduous alternative provided here. Maybe this Board can do something to make these people behave or make these people disgorge this thing. I think as we intimated a minute ago in regard to this northwest decision, this discussion between the Chairman and Mr. Schneider, as long as people think they are going to get what they want they are going to be pretty stiff and obdurate.

If these two people who did something which I think was unwholesome to start with even if the Board wasn't in existence, if they feel that if they just hold on long enough, the Board will just shell out with whatever they want, I think they will stand out for it.

Now, it seems to me that once these two carriers know—and I think the Board told them—they claimed that they answered the Board's mandate in bringing this in but I don't think they did. As I understand it, the Board in effect said—they didn't say so in so many words—but they said, "Why don't you turn this thing loose and let it be a free

carrier?" There isn't anything in the world preventing those two people right now from forming a syndicate and turning this carrier over to the world, I mean to the public. The only difference is that they are using this as a spring board to multiply their strength down there.

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[fol. 3818]. Chairman Landis: I don't quite get that idea clearly in my head. Supposing Panagra were a subsidiary of Pan American, would that be a conception in sin?

Mr. Gambrell: Which is that?

Chairman Landis: If Panagra had been organized as a subsidiary of Pan American, would that have been a conception in sin, as you used the term?

Mr. Gambrell: I think on such a sweeping scale, hemispherically—that is, the east coast and west coast of South America—it would be, but when you add to that the dominant position of the other part, that is the Grace steamship interests, it seems to me that it is if the Mattson deal is that way. In fact, I think this is a worse deal than the Mattson deal which the Board, I think, approved because here you have so much more scope it seems to me—a bigger situation.

Chairman Landis: Then your objection is not so much on the ground that the conception in sin is the lack of competition, but it is rather the existence of the steamship interests in this picture?

Mr. Gambrell: Well, both. We say you aggrandize the Pan American air monopoly irrespective of the steamship and then you bring the steamship in and that just multiplies the poison of the situation.

Chairman Landis: Is it bad, is it somehow against the public policy or against the law, that that aggregation of lines shown on that map, should be owned by one company?

Mr. Gambrell: It is my believe that it is, yes, sir.

Chairman Landis: You think it is just too big?

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[fol. 3819] Mr. Gambrell: That is right. And the record will show that they said they had 50,000 route miles in Latin America on their system and I think you haven't got any American flag effective competitor down there. You have got Braniff coming in here (indicating) and I hate to be gloomy but I don't—

Chairman Landis: That interests me because you are sort of intimating that the Board didn't have the solution to this problem of creating effective competition in South America. I suppose we could beat the bush and find some people who would be willing to apply for certificates to run anywhere in South America, especially with a government subsidy.

Isn't that the answer to it? Just certificate more carriers down into South America, if you really think the situation needs the type of competition that you are speaking about?

Mr. Gambrell: Well, I think that this arrangement really reinforces the monopoly which I think is objectionable now.

Chairman Landis: What is objectionable about it? Is it too big?

Mr. Gambrell: Yes, sir. And the main route in Latin America is between Miami and Canal Zone. I mean that is the thickest of all the routes, that is the heart of the watermelon and there is only one carrier running and that is Pan American today.

Chairman Landis: Yes, but that can be cured by this Board at any time. You are an applicant there. National is an applicant. Colonial is an applicant. A series of other applicants can be—we can cure that very easily by simply

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[fol. 3820] certifying some of them.

Mr. Gambrell: These applicants have stated that this is the answer to that and that that clears the whole thing, and as I see it, it doesn't. It only touches Miami and the whole territory is open. I think approving this contract certainly makes all the more necessary an independent force going through there—an independent carrier.

I think one is needed now. I think to reinforce this monopoly makes one all the more needed.

Chairman Landis: Then if we approve this contract, then Eastern would have a better chance to get its application through, wouldn't it?

Mr. Gambrell: I suppose that is one way to look at it. I suppose it is. Well, anyway, I got away from my script, Mr. Chairman. What have these people done to comply with the mandate? No application has been filed by Panagra. On the contract, the contracts in this case represent

an agreement that no such application shall ever be filed. I don't want the chairman or anybody to understand that I am recommending that Panagra come up.

I think they ought to be freed and treated as an independent carrier. The applicants have come forward with a one-way equipment interchange agreement which would amount to an illegal extension of Panagra's operation to the United States, without a certificate. Not satisfied with such a novel proposition, the applicants have added many terms and conditions so that the net effect of their contracts would be to turn over to Pan American and Grace every detail of Panagra's operations and management. Thus, you

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[fol. 3821] will see that the applicants have taken greatest pains not to comply with what they call the Board's mandate in the Latin American decision. Instead of an application they have presented a contract that no application should be filed. Instead of improving the inherently bad situation in Panagra's management control, they have aggravated that situation. The contracts are far more than through flight agreements. They represent an attempt by the largest air and sea interests in Latin America to divide up the control of Panagra and Latin American transportation for the next 99 years.

Certainly such contracts could not be approved by the Board simply by finding that one plane service is better than connecting service. We are not here trying the Latin American case but I have here page 17 of the Crozier studies. If it is a question of convenience and they did shed big tears this morning about making people get up at Balboa to change over going north or south.

You will note in the pictography here (indicating), Mr. Crozier shows that more people, many more times, move through Miami than through Balboa. The line gets thinner there and when they talk about it is like getting a man out at Richmond, why didn't they say something about the situation at Miami that we have been talking about in the Latin American case for a long time and they have consistently objected to: there are many times as many people inconvenienced by Eastern's Miami transfer as there are down here.

I am not arguing the Eastern case. I am showing the inconsistency of these gentlemen. You know, the line gets thinner the farther south you go and there is much less

[fol. 3822] inconvenience in a transfer at Balboa than there is a transfer at Miami. At Miami more people are inconvenienced by through service at Miami than by through service at the middle point, Balboa. 137

I think it is of greatest importance to the Board to consider what would be the effect of certificates of public convenience and necessity if the Board here would approve the scheme presented by Pan American and Panagra. The record shows that many years ago the parties to these contracts considered equipment interchange proposal.

The record shows that Grace never would agree to less than actual extension of Panagra's operations to the United States and without granting any operating concession to Pan American over Panagra's routes. They can't use an interchange agreement as a precedent for this case because they emphasize that this is not an interchange, it is a one-way affair. On this point, Grace has finally won and it seems clear that the proposed contracts contemplates extension of Panagra's own operations to the United States using the certificate of Pan American. Our brief of November 11, at pages 12 through 18, shows the many respects in which Panagra would have absolute control over the proposed operations between the Canal Zone and the United States. Panagra would fix the number, nature and times of all schedules. Remember that, Panagra would fix the number, nature and times of all schedules, provide the planes and crews, have control over all space on such planes, approve or disapprove Pan American personnel charged with handling Panagra matters in the United States, and assume all risk of loss of aircraft or other property on the Canal Zone-United States flights. Panagra's name and

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[fol. 3823] insignia would be on all the planes and on all the uniforms and the service would be advertised as being operated with Panagra's aircraft and over Panagra routes — I mean Pan American's routes. Both of them, Panagra would have the right to prevent abandonment of Pan American's United States Canal Zone routes.

I say what right has Panagra got to be telling Pan American when it can abandon a route. It seems to me that is a matter for the Board to decide, or to take such routes over for itself.

Without discussing these points in detail--and we have discussed them all in detail in the briefs, it is apparent that for all practical purposes the operation between the United States and the Canal Zone as proposed would be a Panagra operation.

Now, they do provide a very fine-spun formula whereby the revenues come to Pan American and the salaries are paid by Panagra and they get together on accounting.

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[fol. 3824] Mr. Lee: Is it your point that the steamship company has increased its control in this case?

Mr. Gambrell: Yes, sir. I will come to that in a minute.

Mr. Lee: I understood you at first to say Pan American had increased its dominance?

Mr. Gambrell: Both of them have. They have virtually reduced to a shell this Panagra. They have taken away its autonomy. They have made a piece of blunder out of it. It was already virtually so, and they finished the job here.

Since Panagra had no certificate for such operation and is seeking no such certificate it is obvious that such an operation would be illegal.

Pan American and Panagra have cited certain I.C.C. decisions which are alleged to prove similar contracts. It is sufficient to say that not one of those cases even remotely resembles the instant case. Most of the cases cited involved a leasing by one carrier of the entire franchise of another.

We assumed that the applicants do not contend that this is such an arrangement.

Now, Mr. LaRoe this morning said something about Bekins van-lines equipment being here. I think we are all familiar with that. It is not in the record but I think we can talk about it since he did.

We know that there are roving commissions and franchises and Bekins can come here and Mayflower here can go to the West Coast. That has nothing to do with franchise operations.

Eastern Air Lines can carry a football team to Seattle.

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[fol. 3825] I suppose if it wanted to but that has nothing to do with regular operations.

I submit that the Board ought to be most cautious in approving any operation by one carrier over the route of another. Whatever may be the case in other forms of transportation, the flexibility of air transportation, and the many possible repercussions from a single such operation would make such a precedent seem to be inadvisable.

Pan American and Panagra contend in their brief that the proposed through service will fill the acknowledged gap in the Latin American route pattern established by the Board in Docket 525.

And that, of course, concerns me, that they should say that this is the answer to all the trouble in Latin America. That is their attitude here.

Mr. Lee: It is your position that it would—would it result in maybe more traffic from Panama to Miami?

Mr. Gambrell: I don't think it would. I think it would freeze up that track that our passengers have to go on at present. We are subject to a monopoly now, and this thing reinforces that monopoly and provides, for instance, in Section 9, a preference for the long haul traffic of those two carriers, and we can't get one of our passengers on that track—Pan American's track, between Miami and Balboa, until those people have satisfied their mutual obligations to each other under the terms of this contract.

I went into great detail and into cross examination of the witnesses there and they promised that they will

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[fol. 3826] mutually prefer each other on their long haul.

For instance, from New York to B.A., if, say, National or somebody else, or maybe Pan American pulls it around here in some way into Miami, would get there—those people have priority on this segment (indicating on map) and Eastern then has to wait.

Suppose Eastern is trying to do business with Braniff on a three-carrier haul. Eastern changes at Miami and turns it over to Pan American and goes to Balboa and goes on to Braniff.

We have got to stand by until these people fulfill their mutual obligations under the contract before we can get through. Why? Because our participation in that is a short haul participation, and they say their own long-haul passengers should have first call and even though ours is a long-haul to us, it is a short haul to them and it stands by and I say that is one of the iniquities of the whole situation. There are many of them.

Mr. Lee: I don't get that.

Mr. Gambrell: Suppose Eastern had got a passenger going from Washington or New York to Lima, and we get down to Miami, that is as far as we go. We hit the present monopoly there. There is no contract that has been blessed by the Board so we do our best to get through which is not good now.

So, when this contract is approved under Section 9 there is a provision that Pan American will allocate seats preferentially to Panagra down here and it was testified on my cross examination that if some other person seeks to get

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[fol. 3827] the local haul—I mean for Eastern, shall we say, and Braniff between Miami and Balboa, we are not a part of that long haul priority beneficiaries. We are only a local hauler on this line, although we are a long hauler as between ourselves, Eastern and Braniff.

Mr. Lee: If you sold the passenger the ticket at New York to Lima you would control the line that goes over, wouldn't you, from Miami?

Mr. Gambrell: We would control it to Miami but we are at the mercy of the monopoly now and it would be redoubled monopoly if this thing goes through and we would have to take what they would give us and they would say, "Wait if we have got anything left after we get through with what Panagra and Braniff wants we will take care of you then."

Mr. Lee: I want to know what would they do and what does Panagra do that makes you unhappy about this?

Mr. Gambrell: Say he goes through to Miami and wants to go to Lima.

Chairman Landis: Can you sell him a ticket to Lima?

Mr. Gambrell: I am not a ticket expert, but I think we can. I think we can sell him a ticket all the way. All respectable carriers underlie their ticket sales. The question is what kind of reservation can you get. We say, "Well, we find we can get you to Miami but we can't get you out of Miami maybe. Why? Well, they don't admit it but it just happens they are holding up the seats here to see whether Panagra wants them down here because they are under a treaty with each other that we are not a party to and if Panagra doesn't want them we haul them on down (fol. 3828) and turn them over to Braniff."

Mr. Lee: It would be the same plane, wouldn't it, that would go from Miami on down to Lima; it would be the same plane, wouldn't it?

Mr. Gambrell: We are working with Braniff. I mean, let's assume that we are working with Braniff. That these other people are conspiring against us and we have got to work with Braniff. We are trying to turn the passenger over to Braniff here and we haven't got an independent bridge, we have got to take the bridge of the enemy between Miami and Balboa.

Chairman Landis: That is simply a problem in short hauling, isn't it, of which all the carriers are so guilty? They don't want to short haul themselves. They hold up intermediate points until the plane leaves before you can book an intermediate point?

Mr. Gambrell: If new service is put in here it ought to be independent new service, service that would lend itself to competitors with this system.

Mr. Lee: Well, independent or not, wouldn't the monopolies—wouldn't they be just as eager to get that passenger and make connection with him and get an agreement with you so they would have a chance to get that passenger, knowing that you would have an opportunity to sell that passenger to maybe get him over to Havana to Braniff and going down that way?

Mr. Gambrell: As I have just said, sir, the contract says that they will prefer the long haul of their own people and Pan American and Panagra are working together, and

[fol. 3829] if they had anything left over they would give it to us after that, but we would have to wait until they saw whether they could sell it or not.

Chairman Landis: Your stops are what, from Miami up to New York? Miami, Palm Beach?

Mr. Gambrell: Vero Beach, and 8 or 10 stops to Washington.

Chairman Landis: How many seats do you hold on flights from Miami to New York, say for passengers who want to go from Miami to Daytona Beach? Do you hold enough to satisfy traffic if traffic were really offered to you?

Mr. Gambrell: We allocate according to experience and we work out a chart and revise it every month.

Chairman Landis: You don't give priority to long haul as against a short haul.

Isn't that customary?

Mr. Gambrell: Not often. At any rate the point I am making is not only that but we have got here the very people we are competing with all the way to New York and as one might say they wouldn't give us air in a jug because we are in a death struggle with them in competition and if we have got to depend on them and you bless the treaty saying that they shall give it to Panagra, and themselves in preference to anybody else where do we come in, which is what their contract says?

Chairman Landis: I still don't get the point.

Mr. Gambrell: Well, let me try it one more time. Our man is in Washington and wants to go to Lima. Maybe we are working pretty well with Braniff from Balboa down,

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[fol. 3830] and so we can get Braniff from Balboa down and we can get ourselves down to Miami but we keep calling on Pan American at Miami to let us through and it is a week ahead, you ought to sell those things ahead.

They have every inclination to favor their own transportation and as long as they think there is any possibility of getting a through haul on the Panagra-Pan American combination they fail to honor our request for a reservation. There we are, can't sell, and our reputation in Washington becomes: "Well, don't try to get Eastern because

they can't get you through. Ride somebody else and go through the other system.

Mr. Lee: I see your point now, Mr. Gambrell.

Now, do you think it would be any different in that respect than it is now since Pan American owns half of Panagra?

Don't you think they are going to, under the present situation? It means more profits to Pan American if Panagra does well, isn't that true? And wouldn't it be the same incentive now?

Mr. Gambrell: I think the Board was correct when it said it is a fundamentally bad situation now but when they get together and say they are going to prefer each other in the future in a written contract and you approve that it is pretty rough on us outsiders, when we have got nobody else to go to but them.

Chairman Landis: Suppose you extended Panagra up to Miami. Would that—

Mr. Gambrell: They are still under the domination of those people. I haven't recommended extending Panagra.

[fol. 3831] I think that is bad.

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Chairman Landis: Suppose they are an independent carrier. Won't they favor themselves as against favoring a competitor? I don't see this as other than a simple problem in short-hauling.

Mr. Gambrell: You are overlooking this overall competitive situation in which Pan American is diametrically in opposition to us in their whole competitive picture.

Chairman Landis: I am not overlooking that at all. I am not overlooking that from Buenos Aires and to Rio as I see it Panagra just hasn't got the breaks, and Panagra and Eastern isn't as good a combination as the one carrier system that is being offered on the other side.

Now, this would improve it a little bit, give Panagra a better break but at the present time I think your real quarrel is with the New York-Puerto Rico extension.

Mr. Gambrell: Of course that was a great blow. The Board said on Page 11 the Latin American decision strengthened Pan American.

Chairman Landis: That is over the dam.

Mr. Gambrell: That is right but it is a background for what we are talking about.

Mr. Lee: If you sold a passenger a ticket over this combination you wouldn't have any trouble getting connections, would you? I mean it is only in the case of your wanting to do business with Braniff that you would have the short-haul problem of getting through from Miami?

Mr. Gambrell: Well, even if we did it the other way, Pan American and Panagra would favor each other, even

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[fol. 3832] if we were giving it to Panagra below. If it would be to their advantage to postpone us they would favor themselves. They could work with National or somebody else. I don't know who. If you will read this brief carefully you will see that Pan American is dead set against us all the way through, and have been in all these proceedings, and we are without our backs to the wall on the whole proposition, and it is of deep concern to us not to have this Board approve a contract that will freeze us out.

Mr. Lee: Has Pan American ever made a proposal to Eastern for an interchange at Miami?

Mr. Gambrell: I haven't heard of it. I don't believe so.

Mr. Lee: Has Eastern ever made a proposal like that to Pan American?

Mr. Gambrell: I don't believe so. We are highly competitive. We could hardly be in a battle on this New York-Puerto Rick-Latin American situation here and then be advertising joint service and working out our engineering problems together on interchange via Miami.

Those things are sort of incompatible. I am speaking now of interchange, not interline—interchange of passengers—I am speaking of interchange of equipment. Interchange of equipment involves joint engineering and endeavors and joint planning together and we couldn't very well do that through the Miami gate and have Pan American all the while undertake to syphon off business, Miami to New York in the first instance.

Chairman Landis: I still don't see how this would hurt Eastern, except insofar as it may threaten Eastern's pos-

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[fol. 3833] sibilities of being extended from Miami to Balboa.

Mr. Gambrell: Well, as you said a while ago, if there is a monopoly now, and it is monopoly piled on monopoly, with the steamship company added, it would make all the more desirable Eastern's getting down there, as I see it, which may be an advantage if one wants to be philosophical about it. The Board's press release announcing the opening of the Latin American case said that "Although the Latin American decision granted extensive new routes in the Caribbean and in Latin America it did not provide one carrier service from the greater portion of the Eastern United States to the Canal Zone nor did it establish one carrier service from that area into certain other Caribbean points."

Now, they say that this is the answer to that, which of course it is not because this service only goes as far as Miami. It touches one American city. The Board's conclusion that the service needed is between the greater portion of the United States and the Canal Zone and Caribbean points is fully supported by the evidence in this case. Such evidence is summarized in our brief at pages 43 through 46.

The Board found in the Latin American case that 38 per cent of the United States-Latin American traffic is to and from the Caribbean and 80 per cent of such traffic is of United States origin.

The record shows that excluding Mexico, 95 per cent of all United States-Latin American traffic was to the West Indies and the Canal Zone whereas only 5 per cent was to all of South America.

Now, mind you, 95 per cent of all the United States-Latin American traffic was to the West Indies and the Canal

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[fol. 3834] Zone—that is excluding Mexico; whereas only 5 per cent was to all of South America, showing how much more important it is to maintain unbroken lines at Miami such as Eastern has proposed rather than to merely take care of the 5 per cent who go south of the Canal Zone in the way of convenience at transfers.

The part of the United States served directly by Eastern produces two-thirds of all United States-Latin American traffic. If you will note the map on page 44 of our brief you will see that Eastern can logically and directly serve all of such traffic to and from the Canal Zone and important Caribbean points.

The extension of Panagra's service to Miami would provide one carrier transportation for less than one-half of one per cent of the one carrier, United States-Latin American traffic given such service by Eastern's proposed Canal Zone extension.

This proposal of the applicants in this case would give one carrier transportation for less than one-half of 1 per cent of that which is proposed by Eastern.

The relatively inconsequential traffic benefit which the applicants propose in this proceeding certainly does not justify the great harm which would result from this proposal.

As I have previously pointed out, Panagra and Pan American were not satisfied to present a simple equipment interchange contract which would provide some benefits to the traveling public but they added many provisions which would aid Pan American and Grace in their program to re-

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[fol. 3835] strain trade and competition in Latin America.

The applicants seemed to contend that Pan American and Grace have not acquired any new control over Panagra as a result of the contracts involved in this proceeding.

I shall not have time to discuss this issue fully. I refer you to our brief and to our memorandum in which this issue is discussed at length.

For present purposes, I shall simply list some of the new forms of control acquired by Pan American and Grace. Grace is given in the contract a right to designate the President of Panagra, and such President is given responsible charge of the management of the company.

Grace is given control over Panagra's traffic and sales in virtually all of Latin America including the Panagra countries and Panama City but I believe excluding Buenos Aires.

Pan American is given the right to designate the Vice President in Charge of Operation of Panagra who presumably would be in control of the technical aspects of the business. Pan American is given control of Panagra's traffic and sales in the United States, and in all parts of the world except Panama City and Panagra's countries in South America and Buenos Aires.

Pan American--not excepting Buenos Aires--Pan American is given control over Panagra's principal maintenance and overhaul for the next 99 years.

Pan American is given control over the training of the personnel in the United States.

Now, I might say there, while I am on the point, I cannot

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[fol. 3836] follow their suggestion that they might lose \$3500 per pilot in the training program, if the pilot turned out not to be a good man. They say that if they had to train him down in Latin America they would have to ship him back after wasting \$3500 on him.

Well, they say they hire him in this country and their chief executive office, in New York, there is nothing to prevent these people from hiring these new pilots and sending them to the Pan American School in Miami and if he turns out all right they move him on down, if he doesn't they don't move him down, that is the end of it.

I mean that is utterly fallacious. They talk about saving money on maintenance. Well, Mr. Friendly this morning said that only three or four per cent of the ships were involved, he was trying to discuss the application of the law to so small a part of the property.

Then this afternoon or a little bit later, Mr. Gesell comes in and says those ships have to go up to Miami anyway on this arrangement and it wouldn't cost anything to rotate them in and out.

Now I say they have either got to adopt one theory or the other. If only three or four per cent of their property is involved in this utilization up to Miami then it seems to me that should you have very little effect upon what you call the ferrying factor of bringing up ships to Miami for repair, it would cost the same in either case and they say in the contract "ships of all types," whether the types used or whether types that are never used on that particular segment there.

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[fol. 3837] The new acquisition of control over Panagra gained by Pan American Grace we think ought to be disapproved. Grace is the 100 per cent owner of Grace Line, the steamship company, is for all practical purposes a

steamship operator, particularly since it admittedly formulates policies which are followed by Grace line and many of its directors interlocking with Grace line.

Under Section 408 it is plain that the Board must disapprove Grace's acquisition of control over Panagra since one attempt has been made to show that Grace can use aircraft to public advantage in its steamship operations.

On the contrary, it is clear that Grace and Panagra will continue to be directly competitive. In the Latin American case and in other cases the Board has made very plain that steamship control over competing air carrier is contrary to the public interest.

It would be particularly so in this case in view of the past record of Panagra's operations and its future prospects.

Chairman Landis: Your time is about up.

Mr. Gambrell: Yes, Sir. I think I lost a good deal of that in the discussions we had.

Chairman Landis: No. I think I saved it for you.

Mr. Gambrell: Well, all right. We will assume that they contributed to my argument anyway.

I hope they did and if you will promise to read my briefs I think I will stop right here.

Chairman Landis: We always read the briefs.

Mr. Gambrell: Thank you.

Chairman Landis: Orleans Airport Commission?

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ref. 3838 Mr. Cross: That is exactly my suggestion. That is, I do not even ask that the Board decide that adversely at this time. I simply ask that that not be decided favorably now, that that be reserved for decision.

Chairman Landis: Of course, we can't quite guess what the effect of that blanket rule will be.

Mr. Cross: And particularly with respect to the other case. That is our position. Thank you.

Chairman Landis: Public Counsel.